Prince Edward Island

2005 Budget

A Plan to Protect the Priorities of Islanders

Presented to
The Members of the Legislative Assembly of Prince Edward Island

by

Honourable Mitch Murphy

Provincial Treasurer
and
Chair of Treasury Board

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The full texts of the Budget Address, Estimates of Revenue and Expenditure and supporting schedules for 2005-2006 and previous years are available on the Province of Prince Edward Island's website:

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PRINCE EDWARD ISLAND
2005 BUDGET

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THE BUDGET ADDRESS

A Plan to Protect the Priorities of Islanders

Mr. Speaker, Members of the Legislative Assembly,

In this my second Budget I am pleased to announce that the past year marked a major improvement in the fiscal position of the Province.

This turnaround is the product of the hard work and dedication of all members of Cabinet, the public service and most particularly the leadership of Premier Pat Binns.

The public expect a level of service appropriate for the 21st Century and it is our role to provide it. We must be forward looking, do things smart and be in touch with the needs of the province. Islanders should expect no less.

When we first accepted this responsibility, we established four priorities to guide us: heath, education, jobs and communities. These priorities were clearly articulated in our first budget address and I quote:

"A more efficient government must focus on the services that matter most: education for our children, quality health care, job creation, and support for agriculture and our rural communities."

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"We must be forward looking, do things smart and be in touch with the needs of the province. Islanders should expect no less."

Since then we have remained focussed on these priorities because they were, and they still are, the priorities of Islanders.

Mr. Speaker, this budget delivers a plan to protect and preserve these priorities into the future.

Mr. Speaker, at this time I should like to take the opportunity to thank all those persons and groups who took the time to see me during our pre-budget meetings over the past several weeks and months. I view these discussions as very fruitful and in all respects there was a level of knowledge and responsibility in terms of advice provided us that I found most heartening.

Changing Circumstances

While our principles and priorities remained the same throughout the decade, other circumstances changed. Circumstances like spiralling program costs, deteriorating federal funding and unforeseen events are now seriously challenging our ability to grow our economy and provide high quality social programs.

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To illustrate Mr. Speaker, in the past ten years, spending on health increased by 68 per cent. In 1996 we spent on average, $550,000 dollars a day on health. Today we spend over $920,000 a day on these services. During the same period, provincial spending on education increased by 42 per cent. Ten years ago we spent just over $4,900 per year on each child's education. Today we want more from our education system and we spend well over $7,100 a year on each child's education.

Mr. Speaker, during this time, our primary industries were negatively impacted by unforeseen circumstances such as drought, disease, market closures, SARS and soaring energy prices.

As a result of all these things, the cost of providing government

services has now grown higher than the money we take in. Health care costs are growing far faster than our economy. At this rate of growth, they will soon consume two-thirds of total program spending.

"...the cost of providing government services has now grown higher than the money we take in."

Mr. Speaker, these circumstances have brought us to a crossroads in determining the future delivery of programs. Costs have spiralled and new money is limited. Adding more money to maintain and enhance programs is no longer an option. We must make better use of the resources we have available. We must live within our means so that our high quality services continue to be there for us and for future generations.

The alternative is to leave our children the bill for the high quality services we enjoy today. This government will not do that, Mr. Speaker.

A critical aspect of our fiscal position is the financial relationship between the Province and the Federal Government.

As a precursor to the Health Accords, provinces and territories discussed the need to extend additional funding to less wealthy provinces through a reform of the Equalization program. I will say more about this later, but the upshot of these difficult negotiations is that significant improvements in federal transfers through Equalization and Health transfers were accomplished in the past year.

I should like to acknowledge the singular role played by our Premier in countless meetings both with his counterparts across Canada and with the Prime Minister, in pressing for increased federal funds for Prince Edward Island.

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Choices

As we stand at this crossroads, there are two paths before us and we must choose which path we will take. This is an important decision. The path we choose will have a far reaching effect on the future of services like health care and education that are so important to Islanders.

"As we stand at this crossroads, there are two paths before us and we must choose which path we will take."

The first path will take us to the Status Quo. If we go there, we would essentially resist change and tinker with programs, taxes and fees. As a result, we would likely find ourselves in the same place next year, except we would be deeper in debt and the same major problems would loom before us. Status Quo is a place where we would continue to spend more money than we take in, put our high quality programs at risk, and pass up opportunities for economic growth and prosperity.

The other path we have before us, leads us to the place called sustainability. To get there we would have to take control of the underlying issues, make prudent and responsible fiscal decisions and effect meaningful change. Sustainability is a place where we would live within our means, have no deficits, pay down our debt and have the fiscal flexibility to invest in new opportunities for Islanders.

"We think sustainability is the place that Islanders want us to go, and that is the road we will take, the road to sustainability."

We think sustainability is the place that Islanders want us to go, and that is the road we will take, the road to sustainability.

This budget will lead us there. It is a budget that delivers strict short-term spending targets, structural improvements and fiscal responsibility. It sets out challenges that are unavoidable and ambitious but achievable. Mr. Speaker, we have overcome such challenges before and we will overcome them again.

Islanders are committed to fiscal responsibility. In our pre-budget consultations, we asked them how they thought this budget should look. Among the many careful and thoughtful

submissions we received, the overriding theme was clearly to balance the budget and pay down the debt. Islanders also asked us to shape a smaller and less expensive government and to do this in a way that reflects our values and protects our most vulnerable citizens. Finally, they asked us to take immediate action to reduce program spending in a responsible manner so we can support strong economic growth, job creation, prosperity and essential social programs.

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Economic Performance

The Canadian economy grew last year by 2.8 per cent.

Our own provincial economy experienced modest growth in 2004. The provincial Gross Domestic Product increased by about 1.6 per cent.

The main strengths in the provincial economy were in housing construction and in manufacturing. In fact, the value of our manufacturing shipments, at $1.4 billion, was a record for the province. This resulted from expansion in the aerospace sector and the continued growth of processed potato production.

Employment expanded by 0.9 per cent in 2004. According to Statistics Canada, in November 2004, we reached the highest level of employment in the history of the Island at 68,900.

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Not all parts of the Prince Edward Island economy fared as well, however, and these difficulties reduced the rate of growth of the economy as a whole.

While potato production improved in terms of volumes harvested, the value of potato sales were hurt by poor prices. At $152.7 million, potato sales were down 18 per cent from 2003. The value of beef sales in 2004, at $14.5 million was only about half of what they were in 2001. Consequently, total farm incomes in 2004 were negative $20 million, compared to $5.9 million in

2003.

While residential housing construction remained strong, non-residential construction did not enjoy the same growth.

Overall retail sales were unchanged from 2003, which indicates a drop in volume. Much of the decline stemmed from a drop in new car sales. Other contributing factors were the poor situation facing farmers, rising energy prices, a decline in tourist visitation and a modest rise in interest rates. The consequence is that sales tax revenues in 2004-05 are $6.7 million below budget.

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Mr. Speaker, looking ahead to the coming year, we estimate that the provincial economy will expand at a somewhat improved rate of 1.8 per cent, compared to 1.6 per cent growth in 2004. This expansion is expected to be driven by improvements in non-residential, increased construction activity, an upturn in tourism and further increases in manufacturing shipments.

More information on the economy is contained in Budget Paper A.

Federal Revenues

Mr. Speaker, no factor has more impact on our economy than federal transfer payments.

"Federal-provincial discussions in 2004 culminated in wide ranging changes to federal revenues."

Federal-provincial discussions in 2004 culminated in wide ranging changes to federal revenues. As a result of the Premier's discussions with his counterparts and the Prime Minister at the First Ministers' meetings in October 2004, Equalization, our largest revenue source, was increased.

The 2004 Health Accord provides welcome relief from the impact of cutbacks in federal health transfers that we have endured since 1995.

The details on the changes to federal transfers are discussed in depth in Budget Paper B.

Mr. Speaker, I must emphasize that the financial impact of the renewed transfers only puts a halt to the collapse in federal revenues that the Province has experienced in recent years. The amount of these increases pales in comparison to ongoing increases in expenditure demands, especially in health care.

Mr. Speaker, federal transfers have fallen by over $10 million per year since 2000. The combined value of federal transfers to Prince Edward Island under Equalization and health care was $371 million in 2001-02. This fell to $360 million in 2004-05. The new Health Accords raises this to $408 million, which after taking inflation into account represents $370 million in 2002 dollars. In other words, after inflation these major federal transfers provide no actual growth in the Province's bottom line since 2001-02.

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It is clear that a very large part of the additional federal money for health care comes from money the Federal Government saved through cuts to Equalization payments to provinces since 2000. If these payments had grown with the Canadian economy, Equalization entitlements should have increased to $13 billion in 2004-05 and not $8.9 billion.

While I do not wish to dwell on this, I think it is important to point out that a very large part of the increased support for health care has come from ad hoc decisions taken by the Federal Government at year-end to prevent their surplus position from becoming too great. It is very much a product of the fiscal imbalance that exists between our governments, which ultimately serve one taxpayer. It is an unhealthy system that requires change.

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Mr. Speaker, let it not be said that this Government has been silent on these issues. We will argue our points at every opportunity.

Fiscal Outlook

Mr. Speaker, in 2004-05 we planned for a deficit of $33.1 million. The final deficit number of $39.5 million includes an additional $5 million to allow for Workforce Renewal.

Mr. Speaker, the most important budget indicator is the difference in Net Debt, which tells Islanders how much has been added or reduced from the debt. I am pleased to announce that today we are projecting an increase of only $24.7 million, $8.1 million lower than was anticipated in the 2004 Budget.

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The increase in Net Debt for 2005-06 is $9.9 million which represents less than 1 per cent of total expenditures. The deficit, including accounting changes for tangible capital assets, is projected to be $22 million.

Mr. Speaker, this budget contains a balanced mix of expenditure reductions and revenue measures. It was a very difficult one to prepare. It required us to do very careful analysis and make difficult choices. It contains overall spending reductions in every department of government except Health and Social Services and Education, which received budget increases. With a strong focus on the preservation of front line services, it is a plan to effect real change that will enable the Province to live within its means.

"...this budget contains a balanced mix of expenditure reductions and revenue measures."

It is also a very transparent budget. Islanders are asking us to keep them better informed of the public accounts and to communicate our plan for debt reduction in a clear, consistent and transparent way. Mr. Speaker, they are right. We can do better and we will do better.

"It contains overall spending reductions in every department of government except Health and Social Services and Education, which received budget increases."

Program Renewal

Mr. Speaker, during the past year we have taken the necessary steps to renew and sustain government programs in a planned and orderly fashion through our Program Renewal process.

The first step was to develop a profile of every one of government's more than one thousand programs. The second step was to actively engage employees in a thorough evaluation of each program. The next step will be to establish a permanent Program Renewal office.

"Program Renewal has been an inclusive process. It involved 19 teams and a total of 165 employees from all levels of our organization."

Program Renewal has been an inclusive process. It involved 19 teams and a total of 165 employees from all levels of our organization. Another 150 employees provided input directly. Teams evaluated each program and identified ones with potential for change. Their evaluations were reviewed by each departmental management team and a Steering Committee of Deputies before going to Cabinet.

Some of the initiatives identified in this budget are recommendations of Program Renewal. Others are decisions made by Cabinet to reduce the deficit and ensure the Province's finances are healthy.

Many people have the perception that Program Renewal had a beginning and end, and that it is now over. This is not the case. Program Renewal is an ongoing process that we will engage even further in to ensure that our programs continue to be effective, efficient and affordable. As a result of Program Renewal, we now have a much clearer picture of which programs are working well and which ones are not.

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Program Renewal teams also evaluated corporate services that are provided government-wide. In the coming year, many of these corporate recommendations will be implemented. These include the streamlining of pension administration, payroll, finance, human resources, and policy and planning services.

Action will be taken to implement several other opportunities identified through Program Renewal. Working with health professionals, our Government will lead a process to examine scope of practice and maximize the contributions of various health professionals. Improvements will be made in the way we provide school bus maintenance. We will also take steps to improve the utilization of government facilities and non-essential capital assets.

Mr. Speaker, the first major step to implement Program Renewal was the Workforce Renewal Program. Government chose to offer employees incentives to voluntarily retire as a means to provide flexibility in our budgets and workplaces. As positions become vacant, work will be reorganized and redistributed.

Revenue Measures

Mr. Speaker, Islanders should share equally in the challenge to improve our finances. In addition to expenditure reductions, this budget includes some new revenue measures.

In last year's Budget Address, I referred to the need to be bold and innovative in developing the provincial economy and to conduct a comprehensive review of our tax system. As a result of this review, we introduced a series of income tax based measures to attract investment to the province. The new Progressive Tax Rebate program includes an Innovation and Development Credit, an Enriched Investment Credit, a Share Purchase Credit and a Specialized Labour Credit.

"As a result of this review, we introduced a series of income tax based measures to attract investment to the province."

I also indicated that we study the Corporate Income Tax structure to sustain our industries' competitiveness. As a result, as of April 1, 2005, the Corporate Income Tax rate on small business will be lowered by one percentage point, from 7.5 per cent to 6.5 per cent.

"As a result, as of April 1, 2005, the Corporate Income Tax rate on small business will be lowered by one percentage point, from 7.5 per cent to 6.5 per cent."

Further, Mr. Speaker, as a result of our analysis of the impact of existing special corporate tax provisions for manufacturers and processors, we are eliminating the special rate reduction for manufacturers and processors. Small, growing manufacturers will continue to benefit from the lower tax rate for small businesses, and to access the new tax based incentives. The provincial manufacturing and processing investment tax credit will be maintained.

The net revenue impact of these corporate tax changes is estimated to be $3 million per year.

The tire tax will increase from $2 per tire to $4 per tire to reflect the true cost of disposing of old tires.

Currently, seniors can defer their property tax as long as they live in their own home and their income is $22,000 or less. This income threshold is now increased to $30,000 to provide more assistance to lower income seniors.

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Mr. Speaker, as of midnight tonight, we are changing the way we tax gasoline and diesel fuel. We will drop the tax on gasoline from 17 cents per liter to 11.5 cents, and on diesel from 16.5 cents to 11.5 cents. The provincial sales tax will then be applied to the wholesale price of these fuels. This will allow tax revenues to vary with the price of fuels. The price of gas on Prince Edward Island will still be less than on the mainland. The revenue impact in 2005-06 is expected to be $5.6 million.

Mr. Speaker, the Province will continue to levy no tax on home heating fuel.

Finally Mr. Speaker, I am announcing the introduction of a new Real Property Transfer Tax. It will be based on the gross value of all property sales. We expect the new tax to come into effect in 30 days time. This is in line with such a tax in several provinces, including Ontario, Manitoba and Nova Scotia.

"Mr. Speaker, the Province will continue to levy no tax on home heating fuel."

The impact of these revenue measures is to improve our total revenues in 2005-06, by $10.6 million. While we would prefer not to raise taxes, I believe that they are necessary from a fiscal perspective and that their economic impacts are minimal.

Sustaining Our Health Care System

Mr. Speaker, in health care, we have much to build on. Over the years we have held fast to our commitment to front line health care. Accordingly, we maintained and enhanced hospital services, replaced and modernized health facilities, invested in new medical technology and expanded provincial drug programs. We recruited more doctors and nurses, increased base funding for health and invested in key health policy areas. As a result, Islanders now enjoy high quality health services and we are well on our way to creating a culture of healthy living in our province.

"As a result, Islanders now enjoy high quality health services and we are well on our way to creating a culture of healthy living in our province."

During the past year, we opened a new $55 million hospital in Summerside. Ten new long term care beds were opened at the Community Hospital in O'Leary. We continued to work with the QEH Renewal Committee to develop an orderly upgrade for our major referral hospital, which is now 22 years old. Funding is included in this budget to continue this planning process.

Funding for provincial drug programs increased by $1.2 million. Drug coverage was further expanded through new financial assistance for medications to treat rheumatoid arthritis and Crohn's disease. New funding of up to $200 per month was introduced to help Islanders with the cost of home oxygen equipment and supplies. An additional $1.8 million was allocated to meet rising costs in blood services.

A total of 86 new registered nurses were brought into the health system in 2004-2005.

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Three family physicians and five specialist physicians were recruited to Prince Edward Island last year. Another 55 physicians were recruited to provide temporary locum services.

We worked in partnership with cancer survivors and community organizations to introduce a new *Cancer Control Strategy* to reduce incidents of cancer while improving the lives of cancer patients.

Through the *Strategy for Healthy Living* we continued to work with communities to make healthy living the norm in our province.

We recognize the great value of preventing illness and last year, we invested $262,000 to immunize children against meningitis. We also vaccinated over 7,000 students against whooping cough. As a result, our children now have the most complete coverage in North America against this serious childhood illness.

Mr. Speaker, I am pleased to advise that this year, we will invest an additional $465,000 for a new pneumococcal vaccine to immunize infants against meningitis.

Mr. Speaker, funding health and social services has been, and continues to be, the biggest challenge facing government. In the past five years alone, spending on health and social services has grown from $310.6 million to $435.6 million, an increase of over 40 per cent. If we fail to slow the present rate of growth in health spending now, it will consume two-thirds of total program expenditures in five years time. This is a level of expenditure that we, as a small province, simply cannot afford.

"Mr. Speaker, funding health and social services has been, and continues to be, the biggest challenge facing government."

For these reasons, we will begin immediately to improve the way the health and social services system is organized. Cost savings will be realized by reducing overlap, duplication and

administration. These savings will help to address the rising costs in front line patient and client services.

"In the past five years alone, spending on health and social services has grown from $310.6 million to $435.6 million..."

Mr. Speaker, we are a very small province and we can no longer afford to deliver health care through five separate systems. We do not have the financial or human resources to duplicate work in several areas. Accordingly, the four Regional Health Authorities and the Provincial Health Services Authority will be brought together as one system under the *Department of Health*. To ensure a strong community voice in health care, Community Hospital Boards will be established to oversee, manage and plan for community hospitals.

A separate *Department of Social Services and Seniors* will be created. It will be dedicated to social services, children and meeting the special needs of our growing seniors population.

"A separate Department of Social Services and Seniors will be created."

Mr. Speaker, this reorganization of services will result in cost savings of $9 million each year. Wherever possible, employees affected will be offered positions that have been vacated through the Workforce Renewal Program.

Mr. Speaker, people are the most important element in the delivery of high quality health and social programs. This type of change is always difficult for staff. Rising costs and inefficient structures are not the fault of our dedicated employees. We will make every possible effort to ensure that staff are supported throughout this transition.

Collective agreements will be honoured. By eliminating vacancies, early retirement and voluntary departures, layoffs will be a last resort. We will ask the unions to work with us to ensure that we can continue to afford our publicly funded and publicly administered health care system.

"We will ask the unions to work with us to ensure that we can continue to afford our publicly funded and publicly administered health care system."

Further cost savings will be realized through a funding delay this year for the Montague Family Health Centre renovation, reductions to the Seniors Home Repair program, nurse

recruitment, including the Health Care Futures program and the Dental Public Health Budget.

Additional investments to be made this coming year in Health and Social Services include: expansion of the Souris Hospital; an additional $9.5 million for salaries and benefits as per the collective agreements; $2.6 million for physician and hospital services; $837,000 for the Disability Support Program and $600,000 for Early Learning and Child Care; $3.3 million for increased operating costs; and $2.7 million for provincial drug programs.

New funding of $400,000 will be made available for Alzheimers medications. An additional $1 million will increase financial assistance for subsidized residents of private nursing homes.

Additional funding of $155,000 will restore provincial funding for the *Best Start* program this year to $720,000. This will help new parents improve their ability to care for their children and to give them a good start in life.

Through these combined initiatives, the Health and Social Services budget will increase by $15.8 million.

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Sustaining Our Education System

Over the years, Mr. Speaker, we have continued to invest in student learning. Islanders take great pride in the inclusionary practices we adopted in our schools which now provide all students with an equal opportunity to learn. We built school facilities and made new technology available to improve learning. We invested in new curricula, a universal kindergarten program and early literacy initiatives.

We added teachers and reduced class sizes, particularly in the primary grades. Mr. Speaker, had Government continued to staff teachers using the previous funding model, today we would have

165 fewer teachers than we did in 1997.

"Mr. Speaker, had Government continued to staff teachers using the previous funding model, today we would have 165 fewer teachers than we did in 1997."

Last year, over 600 computers were added to classrooms and labs. New enhancements to our data network now enables all schools to access internet information, on average, 33 times faster.

The Bluefield High School expansion, officially opened in August 2004, is a fine example of how we improved student learning by investing in modern and well-equipped school facilities. During the first phase of construction in 2000, eight new classrooms and an administrative area were added at a cost of $2 million. The latest $6 million phase includes new science labs, music and art rooms, an updated gymnasium, career exploration and trades training facilities.

The $6 million addition and renovation of Summerside Intermediate School, officially opened in December, offers many similar features.

"....we continued to invest in early literacy programs such as the Reading Recovery program which dramatically improves a child's ability to read by the end of Grade One."

Our Government recognizes that good reading, writing and math skills are essential to learning everything else in life. For these reasons, we continued to invest in early literacy programs such as the Reading Recovery program which dramatically improves a child's ability to read by the end of Grade One. This year, eight more teachers were trained in Reading Recovery.

"Mon gouvernement reconnaît que de bonnes compétences en lecture, en écriture et en mathématiques sont essentielles à apprendre quoi que ce soit dans la vie."

Mon gouvernement reconnaît que de bonnes compétences en lecture, en écriture et en mathématiques sont essentielles à apprendre quoi que ce soit dans la vie. Nous avons donc continué à investir dans des programmes de littératie tels que le programme d'intervention préventive en lecture-écriture qui améliore considérablement la capacité de l'enfant à lire rendu à la fin de la première année. Cette année, huit autres enseignants ont été formés pour offrir le programme d'intervention préventive en lecture-écriture.

Mr. Speaker, learning is a lifelong process that begins in the early

years and continues long after we finish high school, college or university. For these reasons, Government will work with our partners this year to develop a strategy to improve literacy and learning in our province.

In February, the Premier named a task force to recommend ways to improve student achievement in Prince Edward Island. The task force will take a close look at how our students are achieving and how our education system is performing. They will recommend actions to ensure that our children are getting the best education possible. The task force will provide its report to the Minister of Education by September 30, 2005.

Mr. Speaker, although Government remains committed to the new staffing model, we cannot make the progress we wanted to this year. We, however, remain committed to achieving the outcomes of the model. Our present teacher complement will be reduced in 2005-2006 in accordance with declining enrolments. The resulting student-teacher ratio will not change from the ratio this school year.

"Our Government continues to ensure that Island students have access to high quality post-secondary education here at home."

Other cost savings will be realized through reductions of $615,000 in administrative services and $200,000 in materials and program resources.

Our Government continues to ensure that Island students have access to high quality post-secondary education here at home.

Last year, UPEI and Holland College each received additional operating grants of $750,000. We continue to support the growth and development of UPEI through our $25 million pledge to the Legacy campaign.

Through funding of $720,000 for the Island Student Award program, we provided $600 awards to 1,172 Island students in their third and fourth years at UPEI and Holland College.

Another $7.9 million was provided directly to 2,250 students

through the PEI Student Loan program. This represents an increase of 36 per cent over the previous year.

Mr. Speaker, over the past five years, we increased funding for higher learning by over 60 per cent. This support has helped to bring enrolments at UPEI and Holland College to record levels. UPEI's tuition rates are now the second lowest in the Maritimes and the fourth lowest in the country. Our quality programs make our institutions among the best values in the Maritimes today.

We applaud the tremendous success being achieved by UPEI, Holland College and our students. To help them build further on this success, and in acknowledgement of increasing enrolments at UPEI, we will provide UPEI with increased operating funding of $1 million and Holland College with increased funding of $500,000.

"To help them build further on this success, and in acknowledgement of increasing enrolments at UPEI, we will provide UPEI with increased operating funding of $1 million and Holland College with increased funding of $500,000"

I am pleased to announce that over the next ten years, the Province will make special payments of $16 million a year to the Teachers' Superannuation Fund. This will result in greater security benefits for members and savings to the Province of $3 million per year.

In conclusion, Mr. Speaker, the Education budget will increase from $223.9 million in 2004 to $226.3 million in 2005.

Sustaining Our Communities

Mr. Speaker, our Island way of life is defined by our strong and supportive communities. This Budget supports sustainable growth in Island communities.

Last year, our Community Development Bureau funded 59 projects worth $1.1 million.

In partnership with the other governments and communities, 77 new affordable housing units were opened across Prince Edward

Island last year.

We are pleased to endorse the work of the 2009 Canada Summer Games Bid Committee. This budget allocates $575,000 toward preparation for this prestigious national event. Of this amount, $437,400 will help with start-up costs for the Games. Another $138,000 is allocated to the *Best Ever* program which prepares Island coaches and athletes to compete with the best in the country. There will be $500,000 redirected to support the development of sports facilities needed to host the Games. These investments will produce economic benefits for Island communities and a lasting legacy for Island athletes.

"We are pleased to endorse the work of the 2009 Canada Summer Games Bid Committee. This budget allocates $575,000 toward preparation for this prestigious national event."

We are making substantial progress in our negotiations with the Federal Government to sign the best possible deal for Islanders through new federal infrastructure funding. Our goal is to insure that the agreements meet the needs of Island communities and our ability to financially contribute. These programs will involve a provincial investment of more than $18 million in Island communities through the Municipal Rural Infrastructure Program and $15 million through the second phase of the Strategic Infrastructure Program. We are also working closely with the Federal Government on the implementation of the New Deal, funding which will involve an expenditure of $37.5 million from federal gas tax revenues over a five year period.

"We are making substantial progress in our negotiations with the Federal Government to sign the best possible deal for Islanders through new federal infrastructure funding."

We hope to finalize negotiations with the Federal Government in the near future. At that time, when the negotiations are concluded it will mean $122.6 million in much needed infrastructure improvement for the province.

Grants for culture and heritage will decrease by 6 per cent. The operating grant to Confederation Centre will be reduced by 5 per cent for this year.

Grants will also be reduced in sport and recreation by less than 5 per cent. These sectors have enjoyed significant funding increases over the last number of years. These one-time reductions should

not unduly impact our continuing support in this area.

Sustainable Economic Growth

Mr. Speaker, Islanders have made great progress in growing and diversifying our economy in recent years.

Today there are seven aerospace companies operating successfully in Prince Edward Island. They employ over 800 Islanders. Aerospace sales are projected to be $263 million in 2004, an increase of $83 million or 46 per cent.

Our investment in the Atlantic Technology Centre is an investment in the growth of an industry that has paid off. Today, there are approximately 300 people working in 20 different enterprises at the Atlantic Technology Centre. Sales of the tenant companies in 2004 were approximately $21 million. The annual payroll was approximately $14 million and activity of companies accounted for over $5 million in local purchases.

"Today there are seven aerospace companies operating successfully in Prince Edward Island."

During the coming year, the Institute for Nutri-Science and Health will open at UPEI. The Institute will partner with private business for their research, a new approach by the National Research Council to encourage continued business growth and investment.

Cost savings of $1.6 million will be realized in the Development and Technology budget this year through administrative, property and lending operations cost reductions of $863,000 and reductions of $150,000 in the Equity Investor Incentive Program, $30,000 in the Short Film Program, $457,000 in the Strategic Infrastructure Business Development Program and $100,000 in capital acquisition programs.

"Our investment in the Atlantic Technology Centre is an investment in the growth of an industry that has paid off."

Tourism

Mr. Speaker, during our pre-budget consultations, representatives of the tourism sector made an excellent case for increased investments in tourism. I am pleased to respond positively to their requests today. This budget includes an additional $1 million for tourism marketing this fiscal year. This represents a 30 per cent increase in our tourism marketing budget.

"This budget includes an additional $1 million for tourism marketing this fiscal year."

Savings of $618,000 will be realized through reductions in the Department of Tourism.

Additional cost savings will be achieved through the closure of some campgrounds, day parks and visitor information centres. These include the Campbell's Cove and Strathgartney campgrounds; the Fisherman's Haven and Victoria day parks; the Brackley Visitor Information Centre and the Poole's Corner Visitor Information Centre. In addition, we will work with the Summerside Regional Development Corporation to relocate the existing Visitor Information Centre in Summerside to the waterfront.

Mr. Speaker these were not decisions that were taken lightly. They reflect our ongoing discussion regarding which types of services should be delivered by government and the private sector. These campgrounds are very expensive to operate and keep up. They have been experiencing downward trends in utilization. Visitor Information Centre transactions have been on a steady decline as more and more people seek tourist information through our website and expanded network of Welcome Centres in Island communities.

Agriculture, Fisheries and Aquaculture

The Department of Agriculture, Fisheries and Aquaculture continues to improve the competitiveness of our primary industries and the quality of our products.

"The Department of Agriculture, Fisheries and Aquaculture continues to improve the competitiveness of our primary industries and the quality of our products."

Our Government has been there to help farmers through difficult periods. In the past five years, we have contributed $65 million through CAIS and previous disaster relief programs. Coupled with revenue foregone through tax exemptions, we have provided support of more than $170 million to assist farmers.

"Coupled with revenue foregone through tax exemptions, we have provided support of more than $170 million to assist farmers."

The 2004-05 budget forecast includes one-time expenditures of $3 million for the new Borden-Carleton beef plant and the second installment of a $1.8 million investment in hooks and shares at the plant.

The proposed budget estimate for 2005-06 includes cost savings of approximately $1 million.

The Department will maintain its commitment to safety net programs. Our share of payments under the Canadian Agricultural Income Stabilization program and other support programs is more than $10 million annually, or more than one-third of the Department's total budget.

Programs to protect soil and water quality will be continued. Close to $1.5 million has been allocated to the Sustainable Resources Conservation program for on-farm conservation projects.

Funding for *Future Farmers* will continue, with provisions for business planning, training and other supports. An additional $300,000 will support skills development through the Canadian Agriculture Skills Service program.

Food Trust is achieving success in marketing and branding our products. This helps us to achieve greater stability and access to

agricultural and fisheries markets. Over the next two years, Government will continue to support Food Trust, on a declining basis, as it works toward its model of self sufficiency.

The Department continues to encourage organic and low input production through support for research, extension and certification.

Support for the post-harvest virus testing program will be continued at a reduced level.

Cost savings will be found in Farm Extension Services. The Fur Advance Program is eliminated and the annual grant to the Artificial Breeders Association will be phased out over the next two years.

We will continue to work with the industry to further develop aquaculture production with expenditures of approximately $400,000.

The Department's test production program in Fisheries and Aquaculture will be terminated, although initiatives to support value-added product development will continue. We will work closely with other provincial agencies and the industry on fish processing opportunities.

The Department of Agriculture, Fisheries and Aquaculture will continue to work closely with industry partners to ensure that priority areas continue to be addressed using a flexible and coordinated approach that ensures effectiveness and efficiency.

Environment, Energy and Forestry

Wind energy development is a key component of our new Renewable Energy Strategy. We will proceed this year to pursue a 30-megawatt wind development in eastern Prince Edward Island. Islanders will be invited to share in this development.

"We will proceed this year to pursue a 30-megawatt wind development in eastern Prince Edward Island."

We are also exploring the potential for biodiesel, a cleaner-burning alternative fuel made from natural, renewable sources such as canola. A provincial Biodiesel Working Group is now evaluating expressions of interest and will recommend ways to proceed.

Prince Edward Island has been a leader in taking action on climate change. A Climate Change Coordinator was hired in 2004. A Legislative Assembly Committee on Climate Change carried out extensive consultations and will report during this session of the Legislature.

"Government is committed to lead by example in energy conservation through its new Greening Government initiative."

Government is committed to lead by example in energy conservation through its new ***Greening Government*** initiative. New fuel efficiency standards for government vehicles came into effect this month. Measures are now in place to reduce unnecessary lighting at the public administration buildings. They are estimated to save 2.3 per cent of the annual electricity costs for the complex, and in turn, reduce greenhouse gas emissions.

"...I am pleased to advise that effective immediately, the purchase of small-scale renewable energy equipment and technology are exempt from provincial sales tax."

Mr. Speaker, I am pleased to advise that effective immediately, the purchase of small-scale renewable energy equipment and technology are exempt from provincial sales tax. This will encourage homeowners, small businesses, and agricultural operations to take advantage of technology to reduce reliance on fossil fuels. The tax exemption will apply to such technologies as infrastructure for wind energy systems less than 100 kilowatts; ground-source heat pumps; solar panels for domestic hot water heating systems and electricity production; and biogas systems under 100 kilowatts to capture methane from farm operations to produce energy.

Cost savings of $406,100 will be found this year in the Environment, Energy and Forestry budget. The private sector will be offered new opportunities to work in the provincial forest program through public tenders. The department will continue to set the standards for forest management on public lands, and deliver services not available from the private sector.

The *Greening Spaces* Program, which provides seedlings and technical advice to schools and communities is reduced by $66,000. This brings the 2005-2006 budget of $176,900 in line with actual expenditures in 2004-2005. This budget reduction will not impact delivery.

The Forest Improvement Association grant of $25,000 has been eliminated. Prince Edward Island's $40 million forest industry has reached a level of maturity where it is able to support its own association.

The trout angling licence exemption for farmers and commercial fishers has been eliminated. The cost of a trout licence for Island residents remains at $10. Youth under age 16 do not need a licence to fish, and anglers 65 years of age and older are issued a courtesy licence at no cost.

Transportation and Public Works

"Our infrastructure is critical to our sustained economic growth."

Our infrastructure is critical to our sustained economic growth. This year, the Department of Transportation and Public Works completed major capital projects at Reads Corner and along Route 2. More than 400 bridges were inspected; five bridges were replaced; and 43 bridges received maintenance work.

More than $1.5 million was invested to upgrade the Mill River Waste Treatment Plant

An agreement was reached with the Federal Government to increase the definition of the National Highway System to include

a portion of Route 2. This has made those sections of Route 2 eligible for federal funding sources. 2005 will be the first-ever construction season where federal-provincial funding will be invested to improve the quality of Route 2.

"More than 400 bridges were inspected; five bridges were replaced; and 43 bridges received maintenance work."

Funding for highway and bridge reconstruction is increased by $3 million.

Beginning this year, the Capital Budget for highway and bridge work will be approved in the fall session instead of the spring. This will allow five additional months for the Department and the industry to finalize designs and undertake the tendering process. This will create efficiencies, remove some risk and provide a better environment for construction and resource planning. All of this translates into a more efficient delivery system and improved infrastructure.

"Beginning this year, the capital budget for highway and bridge work will be approved in the fall session instead of the spring."

Needed investments will be made in 2005 in three major bridge replacements: the Midgell Bridge on Route 2 East in Kings County; Scales Pond Bridge on Route 109 in Freetown; and Goff's Bridge on Route 12 in Roxbury. Each will be tendered for a complete replacement.

Ten major highway reconstruction projects are planned on sections of the Trans Canada Highway, Route 1A, Route 2 West, Route 3 and Route 4.

Due to recent storm damage, $1.7 million will be allocated to reconstruct Basin Head with the Province's Risk Management Program paying $500,000 of that amount and the remaining $1.2 in the Department's Capital Budget. An investment of $400,000 will be made to protect and preserve the Panmure Island causeway.

"Due to recent storm damage, $1.7 million will be allocated to reconstruct Basin Head..."

Operational savings of $3 million have been identified and are reflected in changes to the budget.

Mr. Speaker, this Department continues to deliver programs in a more efficient and cost effective manner. This year, snow removal operations will be streamlined to make better use of equipment and human resources.

"Operational savings of $3 million have been identified and are reflected in changes to the budget."

Summer highway maintenance planning and execution will be delivered more efficiently. Equipment rental requirements will be reduced by 10 per cent.

Leased accommodations will be reduced through improved organizational planning and co-location. A number of expired leases will not be renewed.

The fee charged to insurance companies for driver abstracts will increase by $5. This is the first time this fee was increased in ten years.

Office of the Attorney General

Mr. Speaker, the Office of the Attorney General upholds the laws of the Province and helps to ensure that Islanders have a fair and unbiased justice system.

New initiatives implemented this year included the launch of the National Sex Offender Registry to aid police in locating sex offenders; the Province's regulations were made available online; in September 2004, all provincial correctional centres went smoke free.

Cost savings of $538,600 will be found this year in the Office of the Attorney General.

"Since 1998, the demand for youth custody declined by 80 per cent in Prince Edward Island."

Since 1998, the demand for youth custody declined by 80 per cent in Prince Edward Island. Much of this extraordinary drop can be attributed to community-based early intervention programs which keep young people out of the formal justice system. In response, the Georgetown Youth Centre will be closed and the

Prince Edward Island Youth Centre in Summerside will be designated as both an open and closed custody facility, effective this month. This will result in cost-savings of $437,800.

The budget of the Human Rights Commission budget will be reduced by $75,000. This is not a reflection of the excellent work of the Commission, but a response to declining demand for the service.

The Orderly Payment of Debts Program will be phased out in 2005-2006. Several private debt counselling services are now available for people who would otherwise use this program.

The licensing fees for real estate agents and salespersons will increase, for the first time since 1995, by an amount of $100 for a two-year license. Insurance companies, adjusters and salespersons will pay $50 to $300 more for their operating license. In addition, fees for services provided by the Office of the Public Trustee and fees to incorporate a co-operative will increase. In total, these changes will generate an additional $140,000 in revenue.

New investments of $122,000 this year will assist the RCMP to operate the Sex Offender Registration Centre.

Conclusion

In conclusion Mr. Speaker, this Budget is a plan to bring the size and structure of government in line with what the Province can afford. It focusses on program spending while keeping revenue measures to a minimum.

"...this Budget is a plan to bring the size and structure of government in line with what the Province can afford."

The reorganization of some services will reduce administrative costs, overlap and duplication. This in turn will free more resources to address rising costs in front line patient and client services.

Targeted measures will reduce spending in areas where under-utilized programs are not cost effective.

This Budget contains overall increases to the health and education budgets, and new funding for other services that are valued by Islanders. New funding will keep post-secondary tuition rates affordable and support growth in our tourism industry. It will reduce energy costs and promote the use of renewable energy sources. New investments in vaccine programs will prevent serious childhood illness and more money will be added to the Best Start program. Islanders will have access to effective new Alzheimer's medications and there will be more financial assistance for seniors in nursing homes. Rural areas will have more access to family violence prevention services. Public health and safety will be improved through additional inspection and fire protection services.

"This Budget contains overall increases to the health and education budgets, and new funding for other services that are valued by Islanders."

This Budget also supports several new policy measures that will have a very positive impact on government services and the way we do business. Lower corporate taxes will enable our small businesses to be more competitive. Planning for capital projects will be significantly improved through a new policy to move the capital budget process from the fall to the spring. Tourism operators will benefit from timely access to current research on tourism expenditures and visitations. A new school improvement planning initiative will improve accountability for education outcomes. Our new ***Greening Government*** initiative will enable government to lead by example in energy conservation. Through our healthy living strategy, we will continue to reduce lifestyle-related diseases and address the key drivers of health care costs. Through Program Renewal, we will ensure that government continues to improve its performance and outcomes.

"Lower corporate taxes will enable our small businesses to be more competitive."

Mr. Speaker, this Budget will not be an easy one to implement. It will require significant resolve on the part of all of us to achieve these targets.

Mr. Speaker, I have every confidence that we will rise to this

important challenge. And the payout will be worth it.

I acknowledge and thank all members of the staff of the Provincial Treasury who have spent countless hours assisting in the preparation of the 2005 Budget, as well the many staff members who worked hard to make the evaluation phase of Program Renewal a success.

As a result, we now have a firm plan in place to preserve and protect our priorities.

"...we now have a firm plan in place to preserve and protect our priorities."

Together we can ensure that Prince Edward Island continues to be a place where our people have easy access to high quality education and health care, where we enjoy growth and prosperity, and where our strong and supportive communities continue to define our Island way of life.

Thank you

BUDGET SCHEDULES

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10. Cash Requirements
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12. Federal and Provincial Personal Income Tax Rates

Schedule 1
Budget Summary

	2005-06 Budget Estimate $	2004-05 Forecast $	2004-05 Budget Estimate $
REVENUE			
Provincial Own Sources	654,890,600	623,830,500	625,486,200
Federal Sources	438,187,000	434,626,700	391,622,500
Sinking Fund Earnings	12,650,000	14,000,000	13,975,000
Total Revenue	**1,105,727,600**	**1,072,457,200**	**1,031,083,700**
EXPENDITURE			
Program Expenditures	986,472,300	964,011,800	934,157,200
Interest Charges on Debt	107,970,000	102,065,600	106,635,000
Operating Expenditure	1,094,442,300	1,066,077,400	1,040,792,200
Depreciation Expense	38,942,000	38,734,000	24,317,600
Net (Surplus) Deficit of Crown Entities	2,100,000	2,159,100	(949,500)
Workforce Renewal Program	(7,750,000)	5,000,000	-
Total Expenditure	**1,127,734,300**	**1,111,970,500**	**1,064,160,300**
CONSOLIDATED DEFICIT	**(22,006,700)**	**(39,513,300)**	**(33,076,600)**
Add: Depreciation Expense	38,942,000	38,734,000	24,317,600
Less: Acquisition of Tangible Capital Assets	26,922,000	23,928,000	24,060,500
INCREASE IN NET DEBT	**(9,986,700)**	**(24,707,300)**	**(32,819,500)**

Schedule 2
Gross Revenue

	2005-06 Budget Estimate $	2004-05 Forecast $	2004-05 Budget Estimate $
PROVINCIAL OWN SOURCES			
Taxes	556,934,300	527,397,600	524,618,200
Investments	11,501,400	12,830,600	13,795,000
Fees and Services	30,809,500	31,234,500	29,918,300
Licenses and Permits	17,801,900	17,455,200	17,238,700
Sales	37,843,500	34,912,600	39,916,000
Sub-Total	**654,890,600**	**623,830,500**	**625,486,200**
GOVERNMENT OF CANADA			
Equalization	276,563,000	280,611,100	245,783,000
Canada Health Transfer	90,312,500	86,697,700	77,812,300
Canada Social Transfer	40,662,400	36,450,200	36,612,000
Infrastructure Works Program	2,095,100	2,557,000	5,557,000
Canada Employment	5,552,000	6,422,000	5,552,000
Young Offenders Services	2,021,000	2,152,100	2,152,100
Minority and Second Language	1,844,000	2,243,300	1,844,000
Housing Programs	1,530,000	2,300,000	1,800,000
French Services Agreement	1,240,100	1,568,700	1,151,400
Other	16,366,900	13,624,600	13,358,700
Sub-Total	**438,187,000**	**434,626,700**	**391,622,500**
TOTAL CURRENT REVENUE	**1,093,077,600**	**1,058,457,200**	**1,017,108,700**
Sinking Fund Earnings	12,650,000	14,000,000	13,975,000
TOTAL OPERATING REVENUE	**1,105,727,600**	**1,072,457,200**	**1,031,083,700**
Capital Revenue	3,715,000	1,702,500	1,500,000
GROSS REVENUE	**1,109,442,600**	**1,074,159,700**	**1,032,583,700**

Schedule 3
Expenditure Summary
2005-2006

	Appropriation Act $	Program Expenditures $	Capital Expenditures $	Depreciation $
CURRENT				
Agriculture, Fisheries and Aquaculture	28,384,000	28,384,000		
Community and Cultural Affairs	23,088,300	23,088,300		
Tourism PEI	18,386,800	17,765,800		621,000
Development and Technology	5,368,500	5,368,500		
Prince Edward Island Business Development Inc.	20,376,200	20,376,200		
Employment Development Agency	3,546,900	3,546,900		
Education	226,339,100	221,797,100	4,542,000	
Island Regulatory and Appeals Commission	1,200,000	1,200,000		
Office of the Attorney General	32,663,900	32,663,900		
Executive Council	4,159,800	4,159,800		
Health and Social Services	445,278,000	443,758,000		1,520,000
Legislative Assembly	3,614,900	3,614,900		
Provincial Treasury	21,237,100	21,237,100		
Council of Atlantic Premiers	123,500	123,500		
General Government	26,420,900	26,420,900		
P.E.I. Lending Agency	1,715,900	1,715,900		
Technology Asset Management	2,721,800	2,721,800		
Environment, Energy and Forestry	12,103,600	12,103,600		
P.E.I. Energy Corporation	346,300	346,300		
Transportation and Public Works	80,419,900	80,419,900		
Interministerial Women's Secretariat	304,200	304,200		
Auditor General	1,356,600	1,356,600		
P.E.I. Public Service Commission	6,180,800	6,180,800		
Employee Benefits	27,818,300	27,818,300		
PROGRAM EXPENDITURE	**993,155,300**	**986,472,300**	**4,542,000**	**2,141,000**
Interest Charges on Debt	107,970,000	107,970,000	-	-
Transportation and Public Works - Capital	26,095,000	-	26,095,000	-
OPERATING EXPENDITURE	**1,127,220,300**	**1,094,442,300**	**30,637,000**	**2,141,000**

Schedule 4
Forecast Expenditure Summary
2004-2005

	Forecast Expenditures $	Program Expenditures $	Capital Expenditures $	Depreciation $
CURRENT				
Agriculture, Fisheries and Aquaculture	33,090,400	33,090,400		
Community and Cultural Affairs	27,015,000	27,015,000		
Tourism PEI	17,744,100	17,091,900		652,200
Development and Technology	5,405,000	5,405,000		
Prince Edward Island Business Development Inc.	21,456,400	21,456,400		
Employment Development Agency	4,469,200	4,469,200		
Education	224,796,000	219,585,500	5,210,500	
Island Regulatory and Appeals Commission	1,200,000	1,200,000		
Office of the Attorney General	33,074,700	33,074,700		
Executive Council	4,452,800	4,452,800		
Health and Social Services	435,583,700	434,181,700		1,402,000
Legislative Assembly	3,480,300	3,480,300		
Provincial Treasury	20,291,000	20,291,000		
Council of Atlantic Premiers	123,500	123,500		
General Government	6,807,100	6,807,100		
P.E.I. Lending Agency	3,756,300	3,756,300		
Technology Asset Management	2,700,700	2,700,700		
Environment, Energy and Forestry	12,057,400	12,057,400		
P.E.I. Energy Corporation	442,800	442,800		
Transportation and Public Works	78,930,300	78,930,300		
Interministerial Women's Secretariat	300,000	300,000		
Auditor General	1,246,700	1,246,700		
P.E.I. Public Service Commission	4,973,000	4,973,000		
Employee Benefits	27,880,100	27,880,100		
PROGRAM EXPENDITURE	**971,276,500**	**964,011,800**	**5,210,500**	**2,054,200**
Interest Charges on Debt	102,065,600	102,065,600	-	-
Transportation and Public Works - Capital	20,420,000	-	20,420,000	-
OPERATING EXPENDITURE	**1,093,762,100**	**1,066,077,400**	**25,630,500**	**2,054,200**

Schedule 5
Expenditure Summary
2004-2005

	Restated Appropriation Act $	Program Expenditures $	Capital Expenditures $	Depreciation $
CURRENT				
Agriculture, Fisheries and Aquaculture	32,692,000	32,692,000		
Community and Cultural Affairs	30,476,600	30,476,600		
Tourism PEI	17,709,100	17,709,100		
Development and Technology	5,405,000	5,405,000		
Prince Edward Island Business Development Inc.	21,756,400	21,756,400		
Employment Development Agency	4,474,100	4,474,100		
Education	223,919,400	218,708,900	5,210,500	
Island Regulatory and Appeals Commission	1,200,000	1,200,000		
Office of the Attorney General	32,256,000	32,256,000		
Executive Council	4,404,600	4,404,600		
Health and Social Services	429,489,000	429,489,000		
Legislative Assembly	3,480,300	3,480,300		
Provincial Treasury	21,073,400	21,073,400		
Council of Atlantic Premiers	123,500	123,500		
General Government	7,350,900	7,350,900		
P.E.I. Lending Agency	762,300	762,300		
Technology Asset Management	2,700,700	2,700,700		
Environment, Energy and Forestry	12,114,700	12,114,700		
P.E.I. Energy Corporation	342,600	342,600		
Transportation and Public Works	79,001,500	79,001,500		
Interministerial Women's Secretariat	300,800	300,800		
Auditor General	1,258,600	1,258,600		
P.E.I. Public Service Commission	5,073,800	5,073,800		
Employee Benefits	11,502,400	11,502,400		
Program Review	(9,500,000)	(9,500,000)		
PROGRAM EXPENDITURE	**939,367,700**	**934,157,200**	**5,210,500**	**-**
Interest Charges on Debt	106,635,000	106,635,000	-	-
Transportation and Public Works - Capital	20,350,000	-	20,350,000	-
OPERATING EXPENDITURE	**1,066,352,700**	**1,040,792,200**	**25,560,500**	**-**

Schedule 6
Summary of Budgeted Surplus (Deficit) of Crown Entities

	2005-06 Budget Estimate $	2004-05 Forecast $	2004-05 Budget Estimate $
Agriculture Research Investment Fund Corporation	(891,900)	(198,800)	(198,800)
Charlottetown Area Development Corporation[1]	4,100	(317,900)	(265,200)
Island Investment Development Inc.	40,300	392,100	-
Island Waste Management Corporation	(1,426,300)	(2,555,800)	(465,300)
P.E.I. Aquaculture and Fisheries Research Initiative Inc.	(182,000)	(244,000)	(212,000)
Prince Edward Island Agricultural Insurance Corporation	42,200	407,700	1,354,700
Prince Edward Island Energy Corporation	651,900	606,600	808,000
Prince Edward Island Grain Elevators Corporation	59,000	112,400	48,500
Prince Edward Island Self Insurance and Risk Management Fund	148,500	291,900	204,400
Prince Edward Island Special Projects Fund	(127,800)	(253,000)	(125,000)
Summerside Regional Development Corporation Ltd.[1,2]	(418,000)	(400,300)	(199,800)
NET SURPLUS (DEFICIT) OF CROWN ENTITIES	**(2,100,000)**	**(2,159,100)**	**949,500**

Notes:

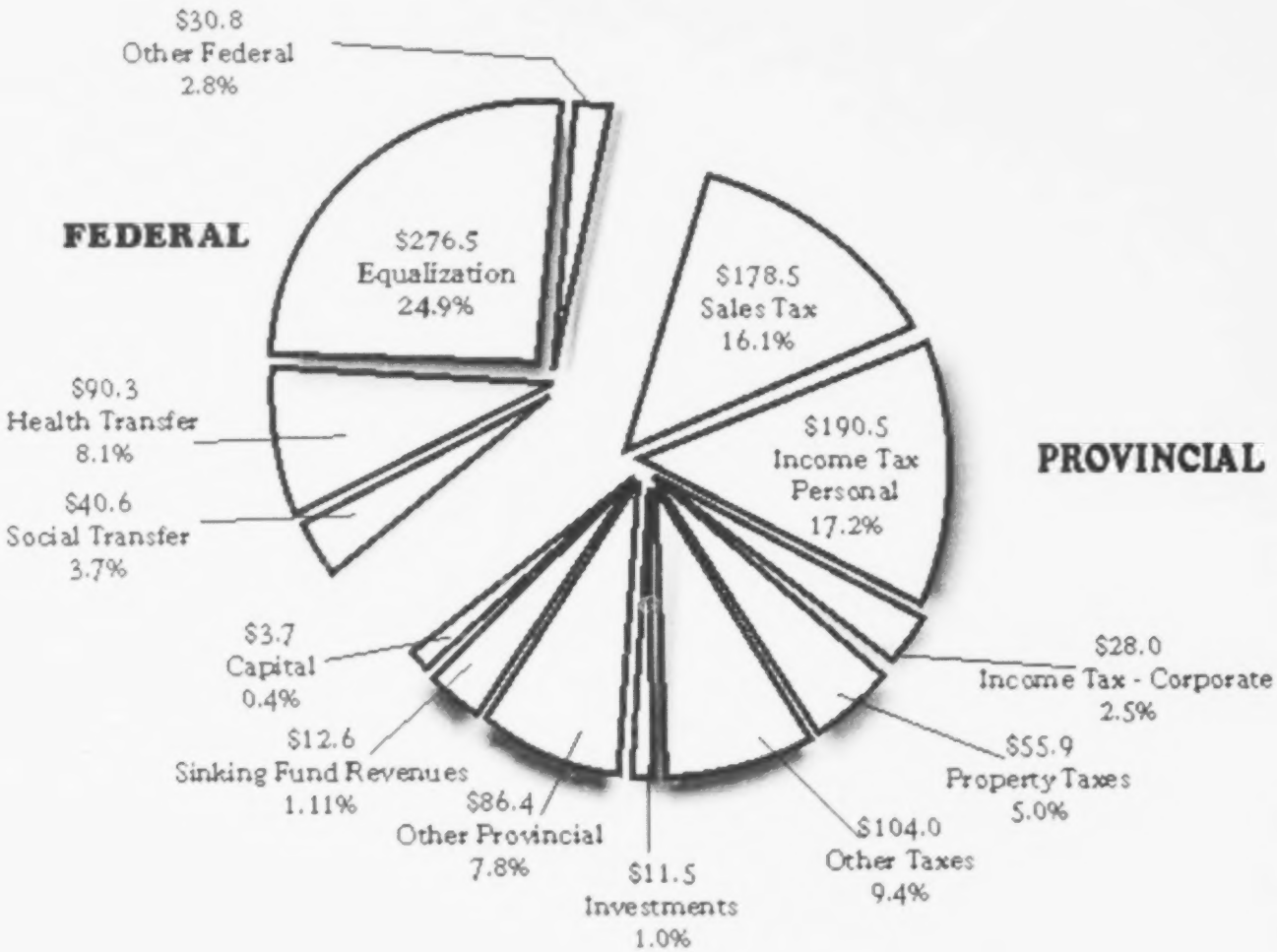
1 Budget Estimates include 85% of the total surplus of the Charlottetown Area Development Corporation; and 75% of the total deficit of the Summerside Regional Development Corporation Ltd., to reflect the Province's ownership of these entities.

2 Summerside Regional Development Corporation Ltd. deficit is pending review and approval by their Board of Directors.

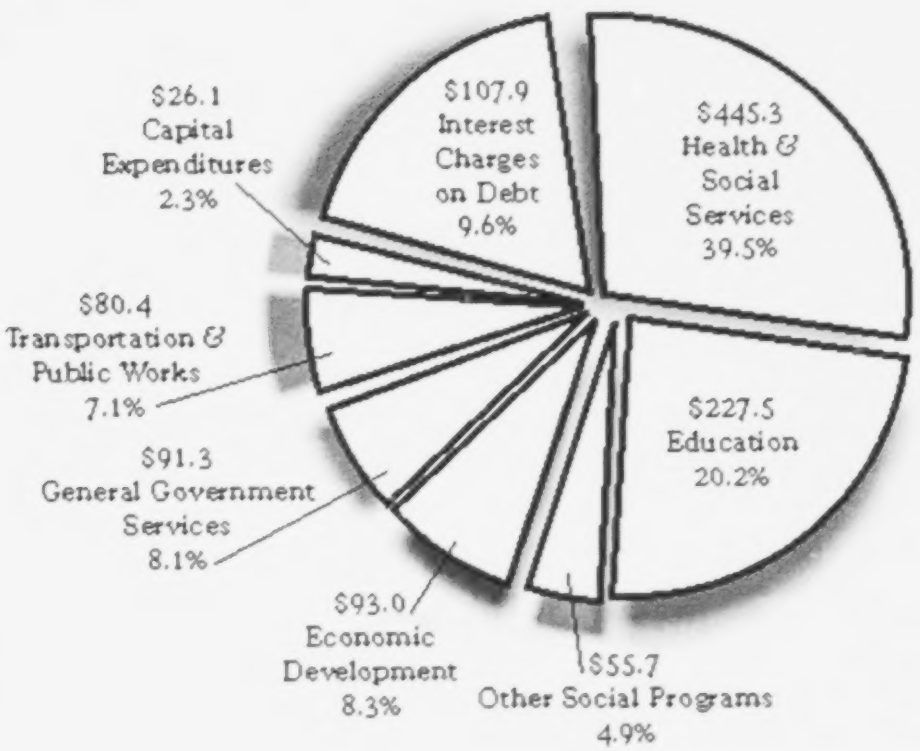
Schedule 7
Tangible Capital Assets
Acquisitions/Depreciation

	2005-06 Budget Estimate $	2004-05 Forecast $	2004-05 Budget Estimate $
ACQUISITION OF TANGIBLE CAPITAL ASSETS			
Transportation and Public Works:			
Buildings/Land/Infrastructure	5,595,000	3,155,000	2,980,000
Bridges	5,500,000	2,891,000	1,200,000
Highway Reconstruction	10,000,000	10,879,000	12,420,000
Highway Equipment	-	820,000	750,000
Federal Cost Shared Infrastructure Programs	5,000,000	2,675,000	3,000,000
Less: Capital Revenue	(3,715,000)	(1,702,500)	(1,500,000)
	22,380,000	18,717,500	18,850,000
Education:			
School Construction	2,247,300	2,947,300	2,947,300
School Capital Repairs	1,100,000	1,100,000	1,100,000
Bus Purchases	1,194,700	1,163,200	1,163,200
	4,542,000	5,210,500	5,210,500
TOTAL ACQUISITION OF TANGIBLE CAPITAL ASSETS	**26,922,000**	**23,928,000**	**24,060,500**
DEPRECIATION OF TANGIBLE CAPITAL ASSETS			
General Government:			
Buildings and Improvements	1,910,000	2,041,800	1,823,500
Lease Improvements	305,000	305,000	200,000
Roads and Bridges	17,106,400	17,051,900	17,928,400
Motor Vehicles	1,183,500	1,142,400	1,292,000
Equipment	2,360,800	2,329,800	681,300
Other	1,037,400	1,006,300	1,654,900
	23,903,100	23,877,200	23,580,100
Crown Corporations	15,038,900	14,856,800	737,500
TOTAL DEPRECIATION OF TANGIBLE CAPITAL ASSETS	**38,942,000**	**38,734,000**	**24,317,600**

Schedule 8
Where the Money Comes From
2005-2006
($ millions)



Schedule 9
Where the Money Goes
2005-2006
($ millions)



Schedule 10
Cash Requirements

	2005-06 Budget Estimate ('000 $)	2004-05 Forecast ('000 $)	2004-05 Budget Estimate ('000 $)
CASH REQUIREMENTS			
Increase in Net Debt	9,987	24,707	32,819
Net Surplus (Deficit) of Crown Entities	(2,100)	(2,159)	950
Net Borrowings on behalf of Crown Corporations	26,960	410	43,280
Sinking Fund Earnings	12,650	14,000	13,975
Sinking Fund Provisions	14,160	12,910	12,910
Change in Short-term Payables/Receivables	2,127	(41,056)	2,825
Transfer to Pension Funds	16,000	18,000	18,000
Maturing Debt:			
Canada Pension Plan	8,975	10,500	10,500
Refinancing of Canada Pension Plan	(8,975)	(10,500)	(10,500)
Public Debentures	-	66,627	66,627
Maturities Financed by Sinking Fund Proceeds	-	(58,439)	(55,761)
TOTAL CASH REQUIREMENTS	**79,784**	**35,000**	**135,625**
SOURCES OF CASH			
Short-term Borrowing	79,784	(165,000)	35,625
Long-term Borrowing	-	200,000	100,000
TOTAL SOURCES OF CASH	**79,784**	**35,000**	**135,625**

Schedule 11
Summary Comparison - Provincial Tax Rates [1]

	Sales Tax (%)	Tobacco Tax ($/pk 25)	Fuel Tax		Corporate Income Tax	
			Gasoline (¢/litre)	Diesel (¢/litre)	General (%)	Small (%)
British Columbia	7.0	4.48	14.5	15.0	13.5	4.5
Alberta	0.0	4.00	9.0	9.0	11.5	3.0
Saskatchewan	7.0	4.38 [4]	15.0	15.0	17.0	5.0
Manitoba	7.0	4.38 [4]	11.5	11.5	15.0	5.0
Ontario	8.0	2.93	14.7	14.3	14.0	5.5
Quebec	7.5	2.58	15.2 [4]	16.2 [4]	16.3/8.9 [5]	8.9
New Brunswick	8.0	2.94 [4]	14.5 [4]	16.9 [4]	13.0	2.5
Nova Scotia	8.0	3.88 [4]	15.5 [4]	15.4 [4]	16.0	5.0
Newfoundland	8.0	4.25 [4]	16.5 [4]	16.5 [4]	14.0	5.0
Prince Edward Island	10.0	4.36	11.5 [3]	11.5 [3]	16.0	6.5 [2]
Atlantic Average	8.5	3.86	14.5	15.1	14.8	4.8
National Average	7.1	3.82	13.8	14.1	14.6	5.1

[1] P.E.I. rates are effective as of April 8, 2005, and all other rates are as of April 1, 2005.

[2] The reduced small business income tax rate in P.E.I. is effective April 1, 2005.

[3] A 10% tax on the wholesale price applies.

[4] Provincial sales tax applies.

[5] Quebec has two general corporate income tax rates, the higher of which applies to non-active business income.

Schedule 12
Federal and Provincial Personal Income Tax Rates, Thresholds and Surtaxes - 2005 [1]

	Tax Rates (%)	Thresholds	Surtax Rates (%)	Surtax Thresholds
Federal	16.0	$8,148.01 – 35,595		
	22.0	35,595.01 – 71,190		
	26.0	71,190.01 – 115,739		
	29.0	115,739.01 and over		
Newfoundland	10.57	$7,410.01 – 29,590	9	$7,032
	16.16	29,590.01 – 59,180		
	18.02	59,180.01 and over		
Prince Edward Island	**9.8**	**$7,412.01 – 30,754**	**10**	**$5,200**
	13.8	**30,754.01 – 61,509**		
	16.7	**61,509.01 and over**		
Nova Scotia	8.79	$7,231.01 – 29,590	10	$10,000
	14.95	29,590.01 – 59,180		
	16.67	59,180.01 - 93,000		
	17.50	93,000.01 and over		
New Brunswick	9.68	$7,888.01 – 32,730		
	14.82	32,730.01 – 65,462		
	16.52	65,462.01 - 106,427		
	17.84	106,427.01 and over		
Ontario	6.05	$8,196.01 – 34,010	20	$3,929
	9.15	34,010.01 – 68,020	36	$4,957
	11.16	68,020.01 and over		
Manitoba	10.9	$7,634.01 – 30,544		
	14.0	30,544.01 – 65,000		
	17.4	65,000.01 and over		
Saskatchewan	11.0	$8,404.01 – 36,770		
	13.0	36,770.01 – 105,056		
	15.0	105,056.01 and over		
Alberta	10.0	$14,523.01 and over		
British Columbia	6.05	$8,676.01 – 33,061		
	9.15	33,061.01 – 66,123		
	11.70	66,123.01 – 75,917		
	13.70	75,917.01 – 92,185		
	14.70	92,185.01 and over		

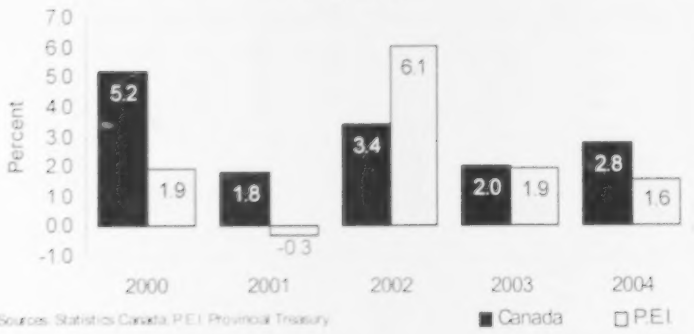
[1] Rates and thresholds are effective January 1, 2005 (as known at April 1, 2005).

BUDGET PAPER A:
BACKGROUND NOTES ON THE ECONOMY

Introduction

While official estimates for 2004 are not yet available, indications are that the Prince Edward Island economy experienced a modest rate of growth in 2004, at a pace similar to 2003. National economic growth improved in 2004. Diagram 1 compares constant dollar Gross Domestic Product (G.D.P.) growth for Prince Edward Island and Canada from 2000-2004. According to Statistics Canada, the Prince Edward Island economy expanded by 1.9 per cent in 2003, slightly below national growth. For 2004, the Department of the Provincial Treasury estimates that the Prince Edward Island economy expanded in the order of 1.6 per cent. Nationally, economic growth was 2.8 percent, according to Statistics Canada.

Diagram 1
REAL GDP GROWTH, CANADA AND P.E.I.
2000-2004



Sources: Statistics Canada, P.E.I. Provincial Treasury

The Prince Edward Island economy in 2004 benefitted from strong residential construction activity and a solid manufacturing performance. Potato production also increased. The volume of retail sales and tourism was down in 2004, which moderated growth. Employment continued to expand in 2004, though at 0.9 per cent, was at a somewhat slower pace than 2003. Energy prices were up by 8.7 per cent, which also slowed Prince Edward Island's economic performance.

National and International Economic Review

The Canadian economy performed better in 2004, following a modest expansion in 2003. Growth in both the provincial and national economies that year slowed in response to the outbreak of S.A.R.S., B.S.E., and the rapid appreciation of the Canadian dollar relative to the United States dollar. For 2004, the Canadian economy benefitted from strong growth in final domestic demand and a rebound in exports, after having declined in 2003.

Nationally, employment rose by 1.8 per cent in 2004, and compares to growth of 2.3 per cent in

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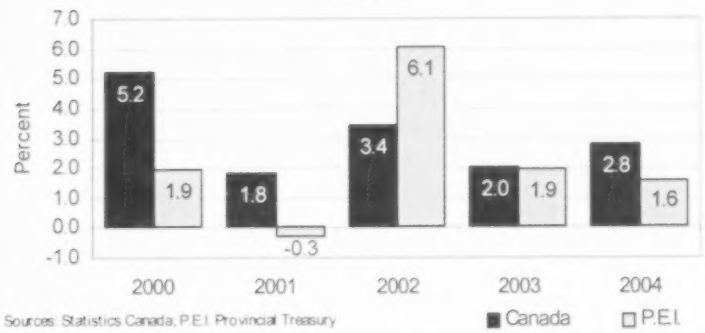

Sources: Statistics Canada, P.E.I. Provincial Treasury

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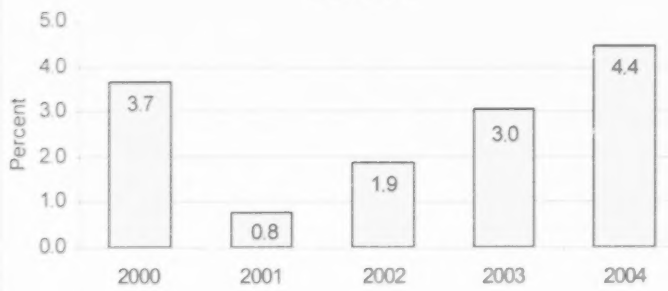
Nationally, employment rose by 1.8 per cent in 2004, and compares to growth of 2.3 per cent in

2003, and 2.4 per cent in 2002. The Canadian unemployment rate was 7.2 per cent, an improvement from 7.6 per cent in 2003, and 7.7 per cent in 2002. Inflation slowed to 1.9 per cent in 2004, from 2.8 per cent in the year previous. Strong growth in residential construction in 2004, of 6.9 per cent, was driven by positive employment and labour income gains, coupled with low interest rates. Retail spending was robust, at 4.8 per cent in 2004, and both the value of manufacturing shipments and international exports of goods rebounded strongly, expanding by 8.4 per cent and 8.6 per cent respectively.

The United States experienced strong economic growth in 2004. Based on preliminary estimates by the United States Bureau of Economic Analysis, the United States economy expanded by 4.4 per cent in 2004, and compares to growth of 3.0 per cent in 2003. The United States economy improved considerably from the economic slowdown experienced in 2001 as shown by Diagram 2. Strong domestic demand, especially in consumer spending and Federal Government expenditures, and export growth, drove the expansion last year.

Diagram 2
REAL GDP GROWTH, UNITED STATES
2000-2004



Source: U.S. Bureau of Economic Analysis

The United States trade deficit widened considerably in 2004 as imports accelerated. The United States annual goods and services deficit valued $617.7 billion in 2004, up by $121.2 billion, or 24.4 per cent from 2003. The trade deficit that year expanded by 17.7 per cent. The United States Budget deficit rose to $412.1 billion in 2004, from $377.6 billion in 2003. For 2005, the Congressional Budget Office estimates a reduced deficit, of $394 billion.

The Honourable Ralph Goodale, in his 2005 Federal Budget Speech, stated:

> *The so-called "twin" U.S. budget and current account deficits remain the principal risks to our economic and fiscal forecasts over the medium term. The American situation could lead to higher interest rates, slower U.S. growth and a further depreciation in the American dollar—any of which could negatively affect us here in Canada.*

Employment growth in the United States, though having improved, remains weak. United States employment rose by only 0.9 per cent in 2004, and compares to a decline of 0.3 per cent in 2003 and a 1.1 per cent decrease in 2002. In 2004, the rate of unemployment in the United States, at 5.5 per cent, decreased from 6.0 per cent in 2003.

Both Canada and the United States have become less accommodative in terms of their monetary policies in the latter half of 2004, raising interest rates slightly. However, rates remain low by historical standards. Diagram 3 shows monthly movements in the key policy interest rates for both Canada and the United States from 2001 to 2005. The Bank of Canada increased rates twice since July 2004 when the target for the overnight rate was 2.0 per cent. The rate was increased to 2.25 per cent in September, and to 2.5 per cent in October, where it currently stands. The past appreciation of the Canadian dollar relative to the United States dollar was partly responsible for weaker than expected economic growth in the fourth quarter of 2004, according to the Bank of Canada. The Bank left the bank rate unchanged in its most recent 1 March 2005 announcement.

The United States Federal Reserve Bank increased its target lending rate by 25 basis points in each of its last seven rate announcements. The first rate increase was in June 2004, to 1.25 per cent, and the last was on March 22, 2005, when the rate was increased to 2.75 per cent, where it currently stands.

Diagram 3:
KEY INTEREST RATES: CANADA AND U.S.
2001-2005

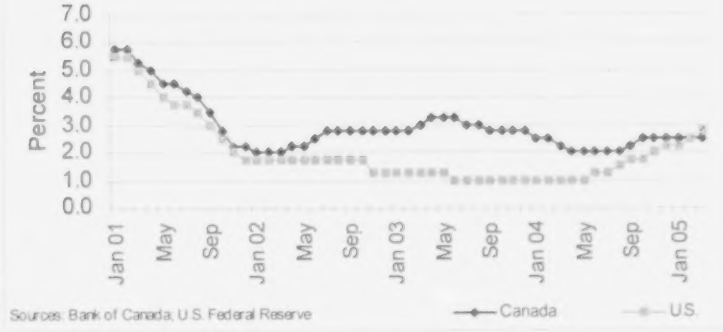
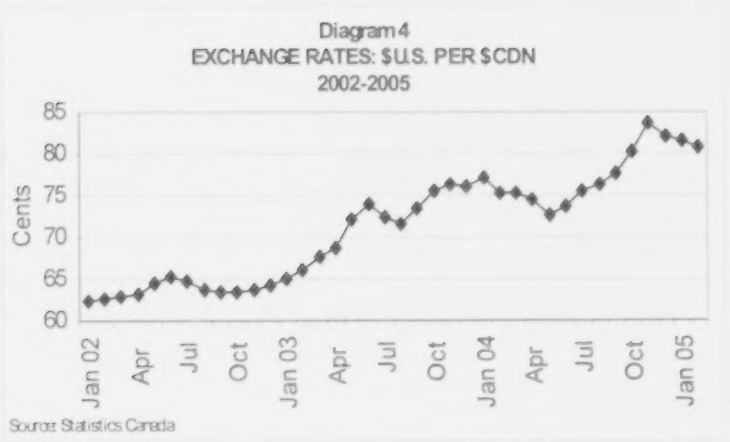


Diagram 4 shows the exchange rate of the Canadian dollar relative to the United States dollar, 2002-2005, by month. The Canadian dollar appreciated sharply against the United States currency in 2004, over the May to November period. At 83.61 cents in November, it had increased by 15.2 per cent from the 2004 low point of 72.55 cents in May.



In the February 23, 2005 Federal Budget, Finance Minister Ralph Goodale indicated that uncertainty about further exchange rate adjustments and their impact on domestic demand was a risk factor to the economic outlook of the national economy for 2005.

On a provincial basis, Alberta experienced the highest rate of economic growth in Canada in 2004, of 4.4 per cent in real terms, according to the Conference Board of Canada. British Columbia had the highest performance in residential construction activity, of 12.9 per cent, while Newfoundland boasted the highest rate of growth in non-residential construction, of 13.1 per cent. Saskatchewan experienced the strongest gain in manufacturing shipments, by value, of 22.4 per cent. Nova Scotia ranked highest in employment growth in 2004, at 2.4 per cent.

The Prince Edward Island Economy

Gross Domestic Product

The P.E.I. Department of the Provincial Treasury estimates that the Prince Edward Island economy expanded by 1.6 per cent in 2004, in constant dollar terms. This compares to growth of 1.9 per cent in 2003 and 6.1 per cent in 2002, according to official estimates by Statistics Canada. For 2005, Provincial Treasury forecasts a modest improvement in the rate of growth for the Prince Edward Island economy, of 1.8 percent. Strong manufacturing and non-residential construction activity are viewed as key growth factors for 2005.

A.1 Highlights of the Provincial Economy 2004

Provincial Treasury estimates that the Prince Edward Island economy expanded by 1.6 per cent in 2004, slightly lower than the 1.9 per cent growth rate in 2003.

Employment expanded on Prince Edward Island in 2004, albeit at a reduced rate. Annual employment on Prince Edward Island averaged 66,700 in 2004, an increase of about 0.9 per cent compared to 2003. That year, employment expanded by 2.3 per cent. The unemployment rate on Prince Edward Island was 11.3 per cent in 2004, a slight increase from 11.0 per cent in 2003, but well below 12.0 per cent recorded in 2002.

Total labour income, which is the largest component of personal income, reached $2,087.6 million in 2004, up by 4.8 per cent compared to 2003. That year, labour income growth was slightly less, at 4.7 per cent.

Prince Edward Island experienced strong growth in manufacturing activity in 2004. The value of manufacturing shipments on Prince Edward Island last year totaled a record $1,417.0 million, an increase of 4.5 per cent compared to 2003. Shipments rose by 2.2 per cent that year.

The Prince Edward Island economy in 2004 benefitted from another year of robust housing construction. According to Canada Mortgage and Housing Corporation (CMHC), a total of 919 starts were recorded in 2004, and compares to 814 in 2003.

Potato production on Prince Edward Island reached 28.5 million hundredweight in 2004, an increase of 1.9 per cent compared to 2003. Prince Edward Island is the largest potato producing province, comprising on average about 25.0 per cent of national production.

Strong gains in hog prices last year resulted in a record value for hog receipts, of $33.7 million.

Lobster landings in 2004, at 19.9 million pounds, were just below the all-time record set in 2003, of 20.0 million pounds.

Employment

Based on revised Labour Force Survey estimates, now adjusted to reflect the 2001 Census (1996 Census counts were used previously), employment on Prince Edward Island expanded by 600 persons, or 0.9 per cent, in 2004 to reach a total of 66,700. By comparison, annual employment growth in the preceding five years averaged 2.1 per cent. According to Statistics Canada, employment gains in 2004 were evenly distributed between both the goods and services-producing sectors. Employment gains occurred in both agriculture and other primary industries, and in services, in retail trade.

Diagram 5
UNEMPLOYMENT RATE, P.E.I.
1984-2004

Source: Statistics Canada

Diagram 5 shows the unemployment rate on Prince Edward Island from 1984 to 2004. It is evident from the diagram that Prince Edward Island's unemployment situation improved substantially since the early 1990's. The rate of unemployment in 2004 was 11.3 per cent, though up slightly from 11.0 per cent recorded in 2003, it was far below the rates experienced in the 1990's.

Personal Income

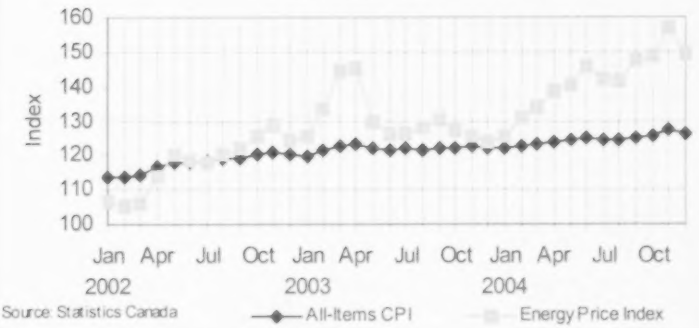
Provincial Treasury estimates that personal income on Prince Edward Island valued $3,423 million in 2004, an increase of 3.5 per cent relative to 2003. Labour income, the largest source of personal income, rose by 4.8 per cent last year, to total $2,087.6 million. The strong growth in labour income in 2004 was driven by increased wages and salaries and employment growth.

Increased earnings from wages and salaries in health and social services; manufacturing; business services; and finance, insurance and real estate services were key to labour income growth in 2004. The major factor that partially offset personal income growth in 2004 was a large loss in farm income. Agriculture Canada estimates a net income loss of $20 million for Prince Edward Island farmers in 2004. This follows net farm income of $5.9 million recorded in 2003, according to Statistics Canada.

Consumer Prices

Consumer price inflation on Prince Edward Island was 2.1 per cent in 2004, a decrease from 3.6 per cent in 2003. Inflation that year was impacted by increased prices for both energy products and automotive vehicle insurance premiums. Nationally, the All-Items Consumer Price Index rose by 1.9 per cent in 2004.

Diagram 6
ALL-ITEMS CPI & ENERGY PRICE INDEX
P.E.I., 2002-2004



Source: Statistics Canada

Diagram 6 shows the All-Items Consumer Price Index and the Energy Price Index for Prince Edward Island from 2002-2004, by month. As can seen by the diagram, energy prices increased considerably through 2004. Average energy prices that year were 8.7 per cent higher relative to 2003. The persistent upward trend in energy prices in 2004 contrasts with the trend in 2003 when a brief upward spike was experienced early that year. This was the result of uncertainty surrounding the United States led war on Iraq which drove energy prices up. Energy inflation was most pronounced during the May to December 2004 period, when energy costs accelerated to an increase of 15.3 per cent, compared to the same period in 2003.

Detailed Industry Analysis

Agriculture

Difficult market conditions in the agriculture industry over the past two years, especially in potatoes and cattle, has kept cash receipts low. Table 1 shows the annual farm cash receipts for Prince Edward Island from 2000-2004. Total receipts in 2004 valued $348.9 million, a decrease of 1.9 per cent from 2003. That year, receipts fell by 2.7 per cent. The overall decline in receipts in 2004 was due to lower receipts for potatoes and cattle. By contrast, receipts for hogs and dairy were higher. Direct payments from government partially offset the decline in total receipts in 2004, at $16.6 million higher compared to 2003.

Table 1
FARM CASH RECEIPTS, P.E.I.
($ Millions)

Year	Potatoes	Other	Total Crops	Cattle	Hogs	Dairy	Other	Total Livestock	Direct Payments	**Total Receipts**
2000	154.5	31.9	186.4	27.3	29.5	51.0	11.9	119.7	16.9	**323.1**
2001	123.9	27.5	151.4	27.7	33.5	52.5	12.2	126.3	58.5	**336.2**
2002	189.9	30.5	220.4	25.3	27.7	53.3	12.8	119.2	24.4	**364.0**
2003	186.5	33.6	220.1	17.7	26.5	55.0	13.4	112.7	22.7	**355.6**
2004	152.7	34.3	187.0	14.5	33.7	59.7	14.6	122.5	39.3	**348.9**

Source: Statistics Canada

Potato receipts valued $152.7 million in 2004, a decrease of 18.1 percent from 2003. High levels of potato production nationally over the past two years resulted in lower potato prices, according to Statistics Canada. The value of Prince Edward Island exports of tablestock/seed potatoes to other countries fell by 19.6 per cent in 2004. Statistics Canada's Farm Product Price Index indicates that potato prices on Prince Edward Island declined by 18.3 per cent in 2004. This follows a 27.1 per cent drop in potato prices in 2003.

The B.S.E. crisis had a serious impact on cattle receipts over the past two years as indicated by the data. In 2003, the year in which a single case of B.S.E. was discovered, cattle receipts on Prince Edward Island fell by nearly 30.0 per cent as a consequence. Continued United States border restrictions on Canadian beef throughout 2004 led to a further 18.0 per cent decline in receipts. Based on the Farm Product Price Index, cattle prices fell in the order of 17.5 per cent in 2004, after having declined by 27.6 per cent in 2003.

In contrast to declining potato and cattle receipts, hog and dairy receipts increased considerably in 2004. Following two years of declines, hog receipts recovered in 2004, to value $33.7 million, representing the highest level of hog receipts ever recorded on Prince Edward Island. Average hog prices rose sharply in 2004, by 19.0 per cent based on the Farm Product Price Index. Increased domestic and foreign demand for Canadian hogs/pork products drove prices higher in 2004.

Dairy receipts reached $59.7 million in 2004, an increase of 8.5 per cent relative to 2003. Dairy prices, based on the Farm Product Price Index, rose by 3.4 per cent in 2004.

Manufacturing

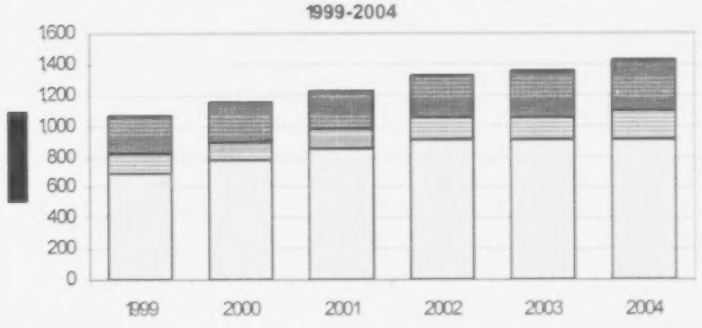
The value of manufacturing shipments on Prince Edward Island reached a record $1,417.0 million in 2004, an increase of $60.8 million, or 4.5 per cent, from 2003. Major growth was in food product manufacturing (excluding fish processing), and transportation and equipment manufacturing (largely aerospace). By contrast, fish processing declined considerably in 2004.

Total food manufacturing valued $888.6 million in 2004, a decrease of 1.5 per cent compared to 2003, while processed potato products, at $638.6 million, rose by $49.7 million, or 8.4 per cent in 2004. Shipments of processed fish products decreased by 20.1 per cent compared to 2003.

Shipments of non-food manufacturing valued $528.3 million in 2004, up by $74.1 million, or 16.3 per cent, from 2003. The major contributor to this growth was transportation and equipment manufacturing. This rose by $43.3 million in 2004, or 28.9 per cent. Aerospace, the major component of transportation manufacturing, valued $161.6 million in 2004 and has increased significantly over the past few years, expanding by an average annual growth rate of 18.7 per cent over the 2002 to 2004 period.

Growth in shipments of non-food manufacturing products after 2002 offset the reduced food shipments, as indicated by Diagram 7. Other products that contributed to growth in the value of manufacturing shipments in 2004 include wood, printing and publishing, and machinery manufacturing.

Diagram 7
ANNUAL MANUFACTURING SHIPMENTS, P.E.I.
1999-2004



Source: Statistics Canada

Fishing

The total value of the Prince Edward Island fishery in 2004 is estimated to be in the order of $160 million, down from $169.6 million in 2003, as indicated by the Prince Edward Island Department of Agriculture, Fisheries and Aquaculture. The major species on Prince Edward Island, by value, are lobster, mussels and snow crab, and the combined value of these species makes up 84.0 per cent of the total value of fish landings.

Lobster landings totaled 19.9 million pounds in 2004, down slightly from the record 20.0 million pounds landed in 2003. This translates into a landed value of about $100.0 million for 2004, slightly down from $108.3 million the previous year. Based on Weekly Fish Price Reports published by the Department of Agriculture, Fisheries and Aquaculture, average prices for market lobster were down in both the 2004 Spring and Fall lobster seasons, by 8.1 per cent and 3.0 per cent respectively, compared to 2003 prices.

Preliminary data indicate that mussel landings in 2004 are similar to 2003, at about 37.0 million pounds. The value of mussel production in 2004 will likely be about the same as in 2003, in the order of $24.0 million.

Due to increased quota, snow crab landings on Prince Edward Island were up considerably in 2004, to 5.6 million pounds from 3.4 million pounds landed in 2003. The landed value of snow crab in 2004 was about $16.9 million. Of the total snow crab landings last year, Prince Edward Island fishers landed 3.2 million pounds, an increase from 2.1 million pounds in 2003. Fishers from other provinces landed 2.4 million pounds on Prince Edward Island in 2004 according to the Department of Agriculture, Fisheries and Aquaculture.

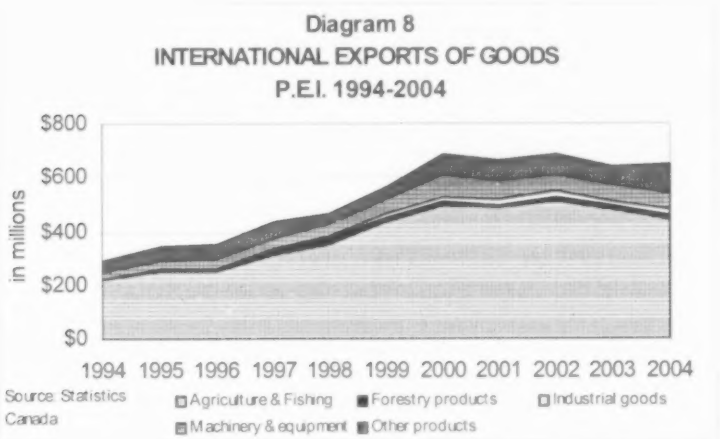
International Export Performance

According to Industry Canada, Prince Edward Island exported a total of $666.4 million of merchandise goods to international destinations in 2004, an increase of $15.8 million, or 2.4 per cent relative to 2003. The major growth factor in 2004 was increased exports of transportation equipment. Increased exports of wood products and pharmaceutical and medicinal products also contributed to growth in 2004. Exports of processed potato products valued $196.9 million last year, about equal to 2003.

Exports of processed fish products were recorded at $134.1 million, an 8.4 per cent decline from 2003, and this lowered growth in the value of goods-exports in 2004. Snack food manufacturing exports, at $5.5 million in 2004, which was $10.5 million lower than 2003, also weakened export performance.

Diagram 8 shows the composition of international goods-exports for Prince Edward Island from 1994 to 2004. It is evident that agriculture and fishing products comprise the majority of the total value of Prince Edward Island goods-exports to other countries. From 2000-2004, the top three

export products, by value, as a proportion of total international exports of goods from Prince Edward Island, were frozen food, which made up 30.2 per cent of total goods-exports, on average; processed fish products, at 23.7 per cent; and fresh/seed potatoes, at 5.8 per cent. Collectively, these comprised 60.0 per cent of the total value of international exports of goods over the last five years.



Construction and Investment

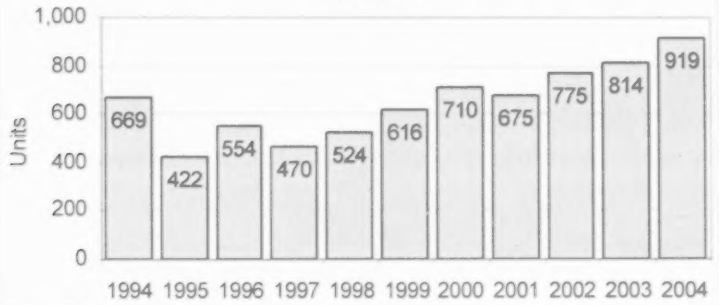
Prince Edward Island experienced another robust year for housing construction. CMHC estimates that there were 919 new housing starts on Prince Edward Island in 2004, up from 814 in 2003, an increase of 12.9 per cent. Prince Edward Island experienced the fourth highest rate of housing construction growth in the country, behind British Columbia, Quebec and Saskatchewan. Nationally, housing construction expanded by 6.9 per cent in 2004. As illustrated by Diagram 9, residential construction has been trending upwards since 1997. Total housing starts expanded at an average annual growth rate of 10.3 per cent over this period.

The pace of housing construction in 2004 offset a relatively weak year for non-residential construction activity. According to Statistics Canada, total non-residential capital expenditures valued $450.9 million in 2004, a decline of 5.7 per cent relative to 2003. Non-residential construction expenditures, at $159.6 million, fell in the order of 16.0 per cent last year, while the value of machinery expenditures, at $291.3 million, rose by 1.1 per cent.

There were however a number of notable construction projects in 2004, which included the construction of the beef plant in Borden-Carleton and the Home Depot retail store in Charlottetown.

According to Statistics Canada's *Private and Public Investment in Canada, Intentions 2005*, total non-residential construction expenditure intentions for 2005 are $542.5 million, an increase of 20.3

Diagram 9
TOTAL HOUSING STARTS, P.E.I.
1994-2004



Source: C.M.H.C.

per cent compared to 2004. This represents the highest rate of growth in construction intentions in the country. The value of total non-residential construction intentions in 2005 is comprised of $218.1 million in capital construction expenditures, which is 36.7 per cent higher relative to 2004, and $324.4 million of capital machinery expenditures, an 11.4 per cent increase over the previous year.

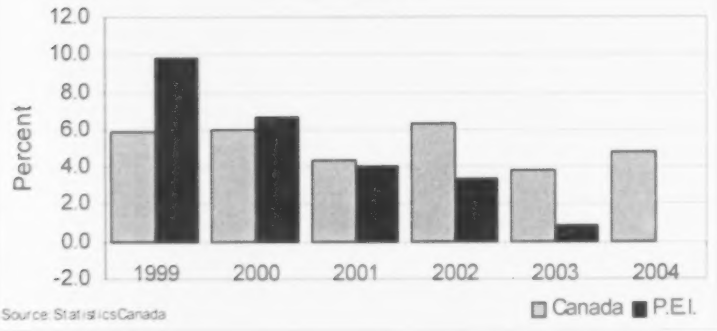
Industries with high capital spending intentions in 2005, according to Statistics Canada, include the real estate and rental and leasing industry, public administration, utilities, and retail trade. Major non-residential construction projects for 2005 include the new federal building, the Maritime Electric generator plant, and various projects on the University of Prince Edward Island campus, such as the National Research Centre, the Atlantic Veterinary College expansion, and a new student residence.

Retail Trade

Seasonally adjusted retail sales on Prince Edward Island valued $1,379.7 million in 2004, which represents no growth in nominal dollars from 2003. Diagram 10 compares the relative growth rates of retail sales for Prince Edward Island and Canada from 1999-2004. For Prince Edward Island, the poor performance in retail sales in 2003 and 2004 can be partly explained by low new motor vehicle sales.

According to Statistics Canada retail sales data, consumer spending in the category "new car dealerships" (which includes sales of new and used cars) totaled $224.6 million in 2004, and spending at "used and recreational vehicle and parts dealerships" valued $38.6 million. Collectively, the value of spending at these dealerships makes up about 19.1 per cent of the total value of retail

Diagram 10
RETAIL SALES GROWTH, CANADA AND P.E.I.
1999-2004



Source: StatisticsCanada

sales on Prince Edward Island. Following a robust year for car sales in 2002, which expanded by 8.7 per cent in value, car sales in 2003 and 2004 declined, by 7.2 per cent and 5.4 per cent respectively.

Increased consumer spending in the category "supermarkets" was robust in 2004. Supermarkets, the single largest category of retail sales, make up about 22 per cent of total retail spending on Prince Edward Island. Consumer spending at supermarkets on Prince Edward Island valued $304.3 million in 2004, an increase of $20.6 million, or 7.2 per cent, compared to 2003.

Another factor adding to the weak performance in retail sales in 2004 was a relatively poor tourist season for Prince Edward Island.

Tourism

Based on preliminary estimates by the P.E.I. Department of Tourism, there were about 350,000 tourist parties that visited Prince Edward Island in 2004, which is a decline of 11.1 per cent from 2003. Visitation that year was 4.8 per cent below 2002.

From the January to October period, total rounds of golf played at the provincial golf courses were down by 14.1 per cent compared to the same period in 2003; provincial park campsite rentals declined by 10.9 per cent on a year-to-date basis; the number of parties counseled at visitor information centres was12.3 per cent lower relative to 2003; and visitation at historic sites declined by 15.9 per cent in 2004, year-to-date.

The Tourism Department also indicated that visitation at national parks (gates and campgrounds) fell by 12.0 per cent in 2004, and numbers at the Confederation Centre declined, in the order of 15.0 per cent. The tourist industry in 2004 did benefit from increased tourist traffic from cruise ships.

There were a total of 28 cruise ships that came to Prince Edward Island in 2004, compared to 19 in

2003.

Government

Government services include the public service sector (i.e. federal, provincial and municipal public administration), education services and health and social services. Total employment in all government services on Prince Edward Island totalled 19,800 in 2004, according to Statistics Canada's Labour Force Survey. This represents about 30.0 per cent of total employment on Prince Edward Island that year. Employment levels were the highest in health and social services, at 8,000, followed by public administration at 7,200 persons, and education services, at 4,600.

In the 2004 Provincial Budget, Government announced that an expenditure review process would be undertaken to identify potential savings to government. The Program Renewal process was established to evaluate all Provincial Government programs to ensure that they continue to be effective, efficient and sustainable. On March 17, 2005, Government introduced a new *Workforce Renewal Program* offering incentives to eligible employees who wish to leave government voluntarily by way of early retirement or voluntary severance opportunities.

Summary and Outlook for 2005

Growth of the national economy in 2004 improved from 2003, but growth of the provincial economy was slightly lower than 2003. For Prince Edward Island, residential construction and manufacturing were strong points in 2004, while a difficult tourist season and declining retail spending in constant dollars, moderated growth. The P.E.I. Department of the Provincial Treasury estimates that Gross Domestic Product valued $3,985 million in 2004. This represents growth of 1.6 per cent in constant dollar terms.

For 2005, the P.E.I. Department of the Provincial Treasury projects an improved rate of provincial economic growth, of 1.8 per cent. The goods-producing sector is expected to drive the economy this year, with forecast growth of about 3.5 per cent. This is largely the result of continued strength in transportation manufacturing and an upsurge in non-residential construction.

In the 2005 Federal Budget, the Honourable Ralph Goodale stated that the national economy is projected to expand by 2.9 per cent in 2005, a slight increase from 2004 growth, but a slower pace relative to the 3.2 per cent forecast in *The Economic and Fiscal Update*, of November 2004. Risks to the outlook identified in the Budget include the large United States current account deficit; uncertainty relating to the speed and magnitude at which the economy adjusts to the appreciation of the Canadian dollar relative to the US currency; and the United States budget deficit.

SUMMARY STATISTICS
PRINCE EDWARD ISLAND ECONOMY

	1998	1999	2000	2001	2002	2003	2004
Population on 1 July (in '000s) *	135.8	136.3	136.5	136.7	136.9	137.3	137.9
Personal Income per capita ($) *	20,007	20,949	22,382	22,672	23,766	24,139	24,803[1]
As % of Canadian Personal Income	*80.6*	*81.3*	*81.7*	*80.4*	*83.0*	*82.7*	*82.5%*[1]
Employment (in '000s) *	59.5	60.2	62.8	63.7	64.6	66.1	66.7
Unemployment rate (%) *	14.0	14.4	12.0	11.9	12.0	11.0	11.3
Unemployment Rate - Canada	*8.4*	*7.6*	*6.8*	*7.2*	*7.7*	*7.6*	*7.2*
CPI - annual change P.E.I. (%)	-0.5	1.2	4.1	2.6	2.7	3.6	2.1
CPI - annual change (%) Canada	*0.9*	*1.7*	*2.7*	*2.6*	*2.2*	*2.8*	*1.9*
Retail trade ($ millions) *	1,087.9	1,194.7	1,273.9	1,324.6	1,369.0	1,380.8	1,379.7
New Motor Vehicle Sales (units)	4,556	4,802	4,902	4,635	4,996	4,731	4,700
Farm Cash Receipts ($ millions) *	324.5	349.6	323.1	336.2	364.0	355.6	348.9
Potato Receipts ($ millions) *	173.3	192.2	154.5	123.9	189.9	186.5	152.7
Lobster Landings ($ millions) *	80.6	88.9	87.8	104.8	105.4	108.3	100.0
Lobster Landings (lbs - millions)	*18.9*	*18.5*	*19.1*	*19.4*	*19.9*	*20.0*	*19.9*
Housing Starts (units)	524	616	710	675	775	814	919
Investment ($ millions) *	494.3	549.0	596.4	616.4	639.1	677.0	698.4
Manufact. shipments ($ millions)	937.6	1,063.4	1,150.6	1,222.0	1,327.1	1,356.1	1,417.0
Tourist visitations (thousands)[2] *	1,240	1,168	1,087	1,104	1,068	1,038	864
International exports ($ millions)	466.0	566.5	682.9	666.4	683.0	640.5	643.9
GDP at market prices ($ millions) *	2,981	3,159	3,366	3,439	3,747	3,858	3,985[1]

* revised data

Note 1: Provincial Treasury estimate
Note 2: Visitations do not include business travel

Sources: Statistics Canada; C.M.H.C.; P.E.I. Department of Agriculture, Fisheries and Aquaculture; Tourism P.E.I.

BUDGET PAPER B:
FEDERAL FISCAL ISSUES

"Mr. Speaker, I must emphasize that the financial impact of the renewed transfers only puts a halt to the collapse in federal revenues that the Province has experienced in recent years."
Hon. Mitch Murphy - April 7, 2005

The past year witnessed major changes to the fiscal arrangements between the federal and provincial-territorial governments. Federal transfers for health care were improved, a major change to the Equalization program was implemented and new federal funding commitments for infrastructure and child care were made. Budget Paper B describes these new arrangements and their impact on Prince Edward Island.

At the July 28-30, 2004 meeting of the Council of the Federation at Niagara-on-the-Lake, Premiers proposed that the Federal Government develop and fund a national pharmacare program and improve funding to provinces for health care, including a strengthened Equalization program. This proposal formed the basis of the provincial consensus position going into the First Ministers' Meeting with Paul Martin, on health care in September 2004.

First Ministers agreed to a 10-year plan on federal funding for health care at that meeting. The Federal Government also outlined its proposal to make fundamental changes to the functioning of the Equalization program for further discussion by First Ministers in October 2004. The October meeting resulted in fundamental changes to Equalization.

In total, federal transfers to Prince Edward Island increased by $43.0 million in 2004-05 and by $46.6 million in 2005-06, compared to the March 30, 2004 Provincial Budget. This was predominately the result of increased Equalization.

HEALTH CARE

The 10-year agreement on health care was signed by First Ministers on September 16, 2004. This agreement consists of three parts. The first part is an agreement to health care principles. The second is a ten-year action plan to strengthen health care delivery in Canada with a focus on reduced wait times. The third part of the agreement is on the amount of federal funding required to implement the action plan.

The federal funding commitments to health care between 2004-05 and 2009-10 are shown in Table B1.

Table B1. FMM 2004 Federal Transfers to Provinces for Health: 2004/05 - 09/10

Fiscal Year	Pre-2004 Canada Health Transfer	Short-term Increase	6% Escalator from $19 Billion	New CHT Level	Medical Equipment	Wait Times Reduction Fund	Total Federal Health Transfer	Increased Health Funding
				$Billions				
2004/05	14.150	1.000	-	15.150	0.500	0.625	16.275	2.125
2005/06	16.500	2.500	-	19.000	-	0.625	19.625	3.125
2006/07	17.900	-	2.240	20.140	-	1.200	21.340	3.440
2007/08	19.250	-	2.098	21.348	-	1.200	22.548	3.298
2008/09	20.200	-	2.429	22.629	-	0.600	23.229	3.029
2009/10	21.200	-	2.787	23.987	-	0.250	24.237	3.037
Total	109.200	3.500	9.555	122.255	0.500	4.500	127.255	18.055

Source: Federal Department of Finance.

In April 2004 the Canada Health and Social Transfer (CHST) was separated to create two new transfers called the Canada Health Transfer (CHT) and the Canada Social Transfer (CST). The Health Reform Fund, which was part of the 2003 Health Accord is now combined with the CHT. Previously committed federal funding for health valued $14.15 billion dollars in 2004-05 rising to $21.2 billion in 2009-10. The 2004 Health Accord is summarised in Table B1.

The Federal Government agreed to increase health care funding in four areas. The first is by providing short-term money to close the "Romanow Gap" including home care and catastrophic drug coverage by raising the CHT to $19 billion in 2005-06. This was done by providing $1 billion in 04/05 and $2.5 billion in 2005-06. The second is to provide additional funds after 2005-06 by escalating the $19 billion by six per cent per year. The third is to establish a Wait Times Reduction fund of $4.5 billion spread out over six years beginning in 2004-05. The fourth measure is to complement the Wait Times Reduction fund by establishing a one-time-payment of $0.5 billion to provinces for medical equipment in 2004-05. Federal funding for health is increased by $18.055 billion over the 2004-05 to 2009-10 period as a result of the Accord.

The 2005 Federal Budget committed the first five years of the Wait Times Reduction Fund to a Trust arrangement in 2004-05 valued at $4.25 billion. This amount is to be paid out of the 2004-05 federal surplus and is designed to allow the provinces and territories the flexibility to access those funds at a time that best suits their needs. In 2009-10 and subsequent years, an ongoing $250 million is committed to the Wait Times Reduction Fund primarily for health human resources.

The total amounts are allocated among provinces on an equal per capita basis. The estimated allocation of these amounts to Prince Edward Island is shown in Table B2 below.

Table B2. FMM 2004 Federal Transfers to P.E.I. for Health: 2004/05 - 2009/10

Fiscal Year	Pre-2004 Canada Health Transfer*	Short-term Increase	6% Escalator from $19 Billion	New CHT Level	Medical Equipment	Wait Times Reduction Fund	Total Federal Health Transfer	Increased Health Funding
				$ Millions				
2004/05	77.519	4.319	-	81.838	2.160	2.699	86.697	9.178
2005/06	76.871	10.753	-	87.624	-	2.688	90.312	13.441
2006/07	80.669	-	9.593	90.262	-	5.139	95.401	14.732
2007/08	86.426	-	8.947	95.373	-	5.117	100.490	14.064
2008/09	90.460	-	10.314	100.774	-	2.548	103.322	12.862
2009/10	94.706	-	11.834	106.540	-	1.062	107.602	12.896
Total	506.652	15.072	40.689	562.413	2.160	19.253	583.826	77.174

** Including Trust Funds.*
Source: PEI Treasury Calculations.

As can be seen in Table B2, the largest increase of funding to Prince Edward Island is from the escalator, valued at $40.689 million over five years. The short-term funding increase in 2004-05 and 2005-06 is valued at $15.1 million and medical equipment funding providing $2.16 million in 2004-05. In total the increased federal funding to Prince Edward Island for health care is estimated at $77.174 million over five years.

The Federal Government also committed to provide $700 million over five years to improve the health of Aboriginal people through a series of separate funding arrangements.

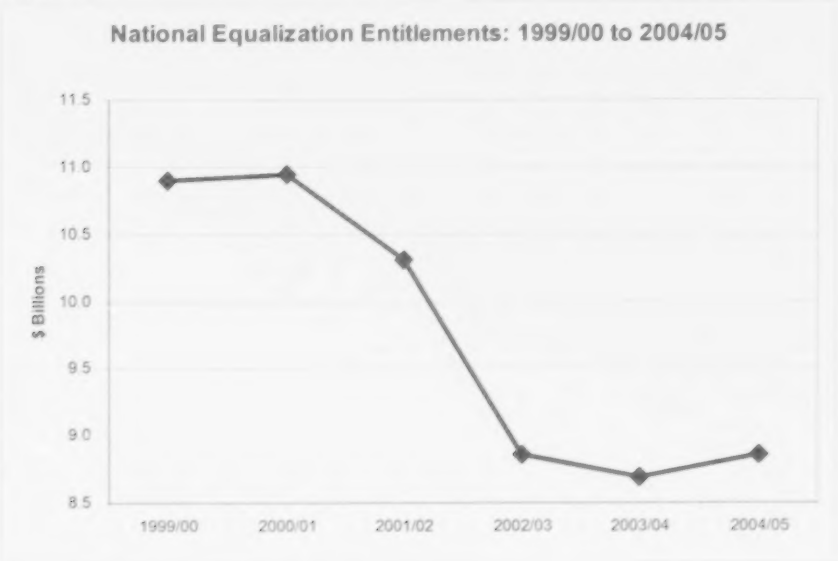
All governments agreed to report to their residents on health system performance.

EQUALIZATION

Premiers recognized that addressing the current fiscal imbalance and strengthening Equalization in the near term are important components of funding health and social programs in less wealthy provinces. Premiers proposed in July 2004 at Niagara-on-the-Lake that until a meaningful strengthening of Equalization is achieved, the Equalization Program be restored to the 2000-01 level of $10.9 billion as an immediate measure to halt the decline in entitlements since 2000-01. Figure

Figure 1 shows the drop in entitlements that have occurred since 1999-00.

Figure 1



Source: Federal Department of Finance.

At the September 2004 First Ministers Meeting on Health care, the Federal Government proposed major changes to the Equalization program. In the 2004 Speech from the Throne it states *"The Government's regional objectives will be complemented by the most fundamental reform of the Equalization program in its 47-year history."* The new framework abandoned the Equalization legislation that was renewed April 1, 2004. A description of how the Equalization program worked prior to October 2004 can be found in the Box Article B1.

The new Equalization framework has five elements, including a minimum funding floor of $10 billion for 2004-05, providing protection against overall and individual declines in payments in 2004-05, increasing the total amount to $10.9 billion in 2005-06 and increasing total entitlements by 3.5 per cent per year until 2009-10. The proposal also calls for an independent panel of experts be created to advise the Federal Government on the allocation of Equalization among provinces and territories after 2005-06.

Box B1

The Equalization Program.

Equalization is a critical component of the financing of provincial programs and services on Prince Edward Island. Equalization is the single largest source of revenue to the Provincial Government and is estimated at $280.6 million in 2004/05. The intent of the Equalization program is to ensure that all provinces are able to provide reasonably comparable services at reasonably comparable rates of taxation as described in section 36.2 of the Canadian Constitution.

> ***36. (2) Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.***

Until October 26, 2004, the Equalization program was designed to measure the amount of revenue that a province could raise from its own sources, using commonly defined tax bases and national average tax rates. There were 33 revenue sources in the program including personal and corporate income tax, property tax, retail sales tax, resource revenues and other sources.

Equalization entitlements were calculated according to a formula set out in federal legislation, the *Federal Provincial Federal Fiscal Arrangements Act* and regulation. Provinces having a revenue raising ability from the 33 revenue sources that is below a threshold amount according to the five province standard receive an entitlement from the Federal Government to bring its revenues up to the standard. Provinces that are above the standard do not receive entitlements nor do they pay into an equalization fund.

The federal legislation for the Equalization program was renewed in 2004/05 and included improvements to the measurement of tax bases and to reduce the volatility of payments to provinces that would be phased-in over five years. The new framework announced in October 2004 abandons this legislation in favour of a fixed amount of Equalization and an allocation formula to be determined by a panel of experts beginning in 2006/07.

The federal Department of Finance released recalculated Equalization entitlements in October 2004 which shows that total entitlements for 2004-05 were $8.9 billion. Raising these entitlements to $10 billion required $1.148 billion that would be allocated among receiving provinces in proportion to their share of total entitlements, as Premiers agreed. Provincial entitlements for 2004-05 are shown in Table B3.

Table B3. Equalization Entitlements and Per Cent Share: 2004/05 October Estimate.									
	NL	PE	NS	NB	QC	MB	SK	BC	TOTAL
									$Millions
Basic Entitlement	674.3	245.6	1,162.4	1,174.2	3,677.7	1,422.4	61.5	433.9	8,852.0
Per Cent Share	7.6%	2.8%	13.1%	13.3%	41.5%	16.1%	0.7%	4.9%	100.0%
Additional Entitlements to Reach $10.0 Billion	87.5	31.8	150.7	152.3	477.0	184.5	8.0	56.3	1,148.0
Overall Protection for 2004/05	0.0	0.0	0.0	0.0	0.0	0.0	582.0	192.0	774.0
Entitlement 2004/05	761.8	277.4	1,313.1	1,326.5	4,154.7	1,606.9	651.5	682.2	10,774.0

Source: Federal Department of Finance

The Federal Government also provided overall protection for provinces whose Equalization payments in 2004-05 had fallen from the initial entitlement. This measure resulted in additional payments of $582 million to Saskatchewan and $192 million to British Columbia..

Prince Edward Island's entitlement at $245.6 million represents 2.8 per cent of total entitlements and consequently Prince Edward Island's share of the additional amount was $31.8 million in 2004-05.

In addition to these amounts, the Federal Government provided $150 million in 2004-05 allocated on an equal per capita basis among receiving provinces as part of the Equalization renewal. Prince Edward Island's share is valued at $1.28 million.

Table B4. Allocation of Equalization and Entitlements 2005/06.									
	NL	PE	NS	NB	QC	MB	SK	BC	Total
									$Millions
Basic Entitlement	674.3	245.6	1,162.4	1,174.2	3,677.7	1,422.4	61.5	433.9	8,852.0
Entitlement Share Increase	121.3	25.7	129.5	133.1	543.6	134.1	(18.0)	(45.4)	1,024.0
Per Capita Increase	65.3	5.4	51.6	40.7	576.7	44.5	38.6	201.2	1,024.0
2005/06 Entitlement	860.9	276.7	1,343.5	1,348.0	4,798.0	1,601.0	82.1	589.7	10,900.0

Source: Federal Department of Finance

The allocation of the $2.048 billion top-up in 2005-06 was made on the basis of a per capita amount and entitlement share amount shown in Table B4. For the years after 2005-06 entitlements are legislated to increase by 3.5 per cent annually in the same proportion as 2005-06.

The Federal Government has convened a panel of experts to review Equalization and Territorial Formula Financing (TFF) programs with the task of providing advice to the Federal Government on the formula used to allocate payments among provinces in future years. It is to look into the treatment of natural resources and other revenue sources, alternative approaches to measuring fiscal capacity and mechanisms to provide for payments to provinces that are stable and predictable. The panel will also examine aggregate measures of the evolution of fiscal disparities among provinces and the costs of providing services in the territories. They will also recommend on whether the Federal Government should have a permanent body to provide ongoing advice on the allocation of Equalization and TFF within the framework of legislated levels.

The Federal Government appointed Al O'Brien, a retired Alberta Deputy Minister of Finance, to chair the five member panel. The panel has been asked to report back to the Federal Government by the end of 2005 with a view to having new arrangements in place prior to April 2006.

The new framework provides financial certainty to provinces for two years and prescribes the total amount of Equalization in future. Provinces could face major changes to their entitlements depending on the recommendations by the expert panel concerning allocation. Prince Edward Island is the most dependant province on Equalization revenue and has the most at risk from changes to the allocation of Equalization beyond 2005-06.

Following the October FMM the federal Prime Minister negotiated additional terms for the treatment of offshore oil and natural gas revenues with the Premiers of Newfoundland and Labrador and Nova Scotia. The new terms ensure that both provinces receive 100 per cent of the benefits from their offshore oil and gas industries, by providing increased offset payments to protect them from declines in Equalization for a period of eight years. This agreement is also renewable for a further eight years under certain conditions. Upfront payments equal to three quarters of the projected benefit of the new terms were paid to each province valued at $2.0 billion to Newfoundland and $830 million to Nova Scotia.

Provincial Treasurer Mitch Murphy appeared before the Senate Committee on National Finance in March 2005 and expressed his concern that the Federal Government has abandoned the principle of equalizing fiscal capacities across provinces. The new framework for Equalization and the concessions that were made to provinces with natural resources have resulted in large variations in fiscal capacities among equalization receiving provinces, in favour of provinces with large natural resource revenues.

EARLY LEARNING AND CHILD CARE AND CANADA SOCIAL TRANSFER

The October 2004 Speech from the Throne outlined the Federal Government's plan for a national program for early learning and child care based on the four key principles of quality, universality, accessibility and development.

The 2005 federal Budget set out its financial commitment by providing $5 billion over five years to support the Early Learning and Child Care (ELCC) initiative. Of the total amount, $4.8 billion will be transferred to provinces. The remaining $0.2 billion is divided equally between funding for First Nations children and developing common indicators and benchmarks for accountability purposes beginning in 2006-07. The first two years of the funding have been placed in a third-party Trust arrangement that is available to provinces as they require, up to the end of 2005-06. Prince Edward Island records the full Trust $3.0 million as revenue in 2005-06.

Previous federal funding commitments for social programs, including early learning and child care flowed to provinces through the Canada Health and Social Transfer and are now part of the Canada Social Transfer (CST). Table B5 shows the current projected CST amounts and the ELCC commitments using a per capita allocation.

Table B5. Canada Social Transfer Including Early Learning and Child Care Funding 2004/05 to 2009/10.

	National			Prince Edward Island		
Fiscal Year	CST*	ELCC	Total Federal Funding for Social Programs	CST	ELCC	Total Federal Funding for Social Programs
	$Billions			$Millions		
2004/05	7.900	0.200	8.100	36.450	0.000	36.450
2005/06	8.225	0.500	8.725	37.648	3.014	40.662
2006/07	8.500	0.650	9.150	38.826	2.784	41.610
2007/08	8.800	1.150	9.950	40.105	4.904	45.009
2008/09	9.050	1.150	10.200	41.167	4.883	46.050
2009/10	9.350	1.150	10.500	42.440	4.883	47.323
Total	51.825	4.800	56.625	236.636	20.468	257.104

** Excluding 2003 Trust Funds*
Source: 2005 Federal Budget, PEI Treasury Calculations.

Social Services Ministers committed to meet again following the 2005 Federal Budget to continue their work on a plan for a national early learning and child care program.

INFRASTRUCTURE FUNDING

On February 1, 2005 the federal Minister of Infrastructure and Communities announced a "New Deal for Cities and Communities" by committing to transfer a share of the federal gasoline tax with municipal governments for environmentally sustainable infrastructure projects.

Table B5. National and PEI Allocation of Funding for Environmentally Sustainable Infrastructure.

Fiscal Year	Equivalent Share of Federal Gas Tax	Federal Funding	PEI Targeted Allocation
	Cents / Litre		$ Millions
2005/06	1.5	600	4.5
2006/07	1.5	600	4.5
2007/08	2.0	800	6.0
2008/09	2.5	1,000	7.5
2009/10	5.0	2,000	15.0
Total		5,000	37.5

* Target allocation to smaller jurisdictions is 0.75 per cent.
Source: 2005 Federal Budget

Table B5 indicates that the Federal Government will provide $600 million per year in 2005-06 and 2006-07 rising to $2 billion per year in 2009-10. This transfer is allocated among provinces based on population with targeted funding levels for smaller jurisdictions including Prince Edward Island and the three territories. Prince Edward Island's targeted allocation amounts to $4.5 million in 2005-06 and 2006-07 rising to $15 million per year in 2009-10 for a total of $37.5 million over the five-year period.

FEDERAL LOANS

The Federal Government announced in its 2004 Budget that it would provide interest free loans to provinces if their basic entitlement for 2004-05 fell below the average of the previous three years. Prince Edward Island qualifies for a loan of $8,460,000 under this program. This amount is additional to the $29,528,000 currently owed by Prince Edward Island to the Federal Government resulting from the impact that revised population estimates and income tax data had on Equalization and CHST in 2003-04.

Federal Finance Minister Ralph Goodale delayed the start date of repayments on all these loans by one year and extended the term of repayment from five to ten years. All the loans are interest free.

Prince Edward Island recorded positive adjustments of $5.5 million to Equalization and $2.1 million to CHST revenue in the 2003-04 Provincial Public Accounts to account for the net present benefit from the interest free loans. The net present benefit of the additional Equalization loan is estimated at $1.9 million and is included in Equalization revenue for 2004-05.